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The Future of Private Enterprise

For the first time since his return from Moscow, Mr. Mao Tse-tung has allowed himself the privilege of speaking in public rather more freely than might have been expected. His announcement had long been awaited and came as a relief in that, cautious and reticent as it might be in some respects, it gave the listening world a glimmer of light on the present position in China and its future possibilities.

Mr. Mao was quite frank in his criticism of the Communist Party, pointing out that their "blindness" in directing China's economic life was pushing the country towards ruin. This was straight from the shoulder and should bear fruit. He also urged the reduction of onerous taxes and the necessity of lightening the burdens of the people; pointed out the reckless waste of public funds and the need to provide relief against increasing unemployment. Further he urged agrarian reform, not by way of seizing the property of rich peasants, which in itself is hampering farm productivity, but by the lifting of taxes and by providing increased facilities. History shows that in all economic upheavals one of the most popular methods towards obtaining agrarian reform has been an onslaught against those who have shown sufficient enterprise and initiative to raise themselves financially above their fellows. The wealthier peasant, who is particularly noticeable amongst his poorer comrades, immediately attracts the notice and ire of those around him and becomes in thought a promising avenue for the acquisition of wealth.

Mr. Mao has now exposed this tendency realising that the pro-

ductivity of the land in China depends at present almost if not entirely upon those peasants, who are able to cultivate on a rather more scientific basis than their neighbours. He also referred to the size of the army, which has largely been drawn from the peasant classes, thus depriving the land of necessary workers. A serious problem has therefore arisen in agrarian circles which Mr. Mao has undoubtedly seen for himself. In fact the lack of comprehension on the part of the new administrators of agricultural needs has, according to reports, been so glaring that in some areas country youths have been compulsorily drawn from the village for military training, not for the army which is already unwieldy and expensive, but as future guards for their own communities. At the end of their training the more inept are returned to their homes while the promising are sent to urban districts for further tuition. This method indicates a constant drain on the country's man power and leaves the urgent work to women and children and the aged.

While the attempted rectification of these abuses is all to the good and will ensure the full sympathy of the foreign communities, in China Mr. Mao's statement that government would not yet abolish what remains of the "capitalist" system is more important to merchants who are speculating what the future holds for their individual enterprises. It is significant that Mr. Mao employed the phrase "what remains." Be that as it may the head of the new regime has now definitely stated that individual enterprise will not be entirely eliminated and this announcement in itself should

come as an answer to some of the queries raised in the annual report of the British Chamber of Commerce in Shanghai. It is naturally well understood that this concession has arisen from necessity rather than inclination, but the fact remains that business enterprises though controlled, will until such time as the country's economy is in a position to warrant such drastic change, be allowed to operate. Mr. Mao did not however, minimise the heavy taxation, which is the main cause of the straits in which some firms already find themselves while others are obliged seriously to consider the feasibility of carrying on in the hope that "things will improve."

If Mr. Mao is serious in his contention that parts of the capitalist system are still indispensable, and there is no reason to think otherwise, he must also envisage the necessity of giving that same system a chance of functioning even though restricted. The observations of the Shanghai Chamber of Commerce on the question of taxation are interesting, for while it is agreed that the "vigorous measures to extend the scope of taxation and collect promptly have been major factors in the stabilisation of the Jenminpiao," Shanghai industrialists are unable to bear the weight imposed upon them much longer. Not only have they to bear direct taxation on business; but state monopolies, difficulties over procuring foreign exchange and the introduction of the link system under which raw cotton, for instance, can be imported only against a corresponding value of exports of cotton textiles, have rendered business practical-

More Flats for Army Families

An agreement is believed to be nearing the final stages for the erection on a site at Argyle Street, Kowloon, of eleven blocks, comprising 66 flats, for occupation by the families of Army personnel, stationed at Hongkong. This project may be the forerunner of other schemes to relieve the acute local shortage of married quarters available to the Services. The site proposed has an area of 100,000 square feet and was believed to have been inspected recently by Mr. Strachey, the Secretary of State for War.

It is understood that negotiations for a twenty-one year lease of the site at Argyle Street have been handled by Messrs. Harriman Realty Co., Ltd. The developers of the site are the Hongkong Realty and Trust Co. Ltd., and preliminary arrangements with contractors for foundation and building work have already reached an advance stage. In the circumstances operations on the site could start within seven days of the conclusion of negotiations. The buildings will be ready for occupation six months thereafter.

ly impossible, providing "almost no scope for the British importer, who could not import goods for which he was unable to remit payment." Conditions in Shanghai at present are not such as to encourage exports, so the manufacturers are in a vicious circle unless the Government chooses to extricate them.

These and many other restrictions such as overwhelming land taxes in various forms which make property a burden rather than an asset, as the Chamber's report tersely points out, are helping to make all enterprise extremely hazardous, deterring any entry into commitments which might prove disastrous and impossible of fulfilment.

Until the businessman's position as an economic stabiliser is fully recognised by the new regime, the Chinese people must continue to suffer. Mr. Mao's speech however, gives reason to hope that the new authorities are learning through hard facts that while the goose is a fine bird, its golden eggs are still more profitable than its dead body.

Hongkong's Lamp Industry

(1) Kerosene Lamps

One of the Colony's growing industries, the kerosene lamp industry, whose products compare favourably with those of its competitors in the world, is facing difficult times ahead as a result of the shrinkage of its foreign market. Import restrictions, civil warfare, social disorder and unstable economic conditions in India, South-east Asia and the Middle East, the biggest market for Hongkong lamps, have greatly reduced the demand for these products.

According to statistics compiled, the export trade for the first four months of this year is as follows:

	Pressure Lanterns	Hurricane Lanterns
January	\$ 77,343	\$ 64,044
February	45,045	25,965
March	150,768	128,241
April	44,880	38,143

The above figures show that while in March exports for this year spurred to \$150,768 and \$128,241 respectively, the situation could not be maintained. April figures indicated a 200 per cent drop, and the situation is not likely to improve in the immediate future especially as business during the "lean" months from May to September is usually slack.

There are five manufacturers of pressure lanterns in Hongkong, namely, the Union Metal Works, Great Wall Metal Works, Shu Kee Copper and Iron Works, Wing Tung Metal Works and Yuen Kwang Metal Works.

Leading the field is the Union Metal Works, Chinese-owned and managed company, whose popular "Solar" pressure lanterns have won recognition among lamp manufacturers and users in the world. This factory, which manufactured bicycles prior to the outbreak of World War II, was reorganized in 1946 to manufacture lamps. Capitalized at \$1 million, it is equipped with automatic machines of the latest model. Under the direction of foreign-trained technicians, 350 workers, using imported raw material, turn out monthly at their Kowloon factory a total of approximately 12,000 lanterns—of both 200 and 300 candle-power.

"Solar" lanterns are patterned after the German-made "Petromax" of pre-war days. They are made with a heavy base that serves as a fuel fount equipped with a built-in pump that compresses air in the fount. The air forces fuel upward through a small pipe into a generator that spews the fuel out in a tiny mist, as an atomizer does, through the burner tip. To this is tied a rag mantle that looks like a small bag made of mosquito netting. The mantles are made of rayon that has been saturated with a solution of thorium, an element that is an ingredient of the atomic bomb.

After being fixed to the burner, the mantle is set on fire before the fuel is turned on. The rayon is thus consumed, leaving a skeleton of thorium, which, when the fuel is turned on and a match applied, produces light by burning the fuel at intense heat inside

the mantle, which acts something like a filament in an electric bulb. Thorium has one of the highest melting points of any known metal, and during the operation of the lantern, the mantle reaches and holds a temperature of about 3,000 degrees Fahrenheit.

The Great Wall Metal Works, with its "Trainite" brand, turns out 2,000 lanterns monthly while the Shu Kee Copper and Iron Works—established in 1925 and the oldest repair shop—has a monthly output of about 1,000 lanterns. Better known among its brands is the "Rocket." The other two manufacturers are small operators; the Yuen Kwang Metal Works still being mainly a repair shop.

Export Markets

Of the foreign market for pressure lanterns, India until April-May last year was the biggest consumer, claiming one-fourth of the export trade. The sudden imposition of a ban on imports by the Indian Government, however, brought about a new situation, and although this stringent measure has since been somewhat relaxed with the lifting of the ban and its substitution by an import license system, the market is still unsteady.

As the second biggest buyer, Siam accounted for 20 per cent of the export trade, but owing to an overstock, orders have been reduced. Iran, once a good customer, has since March this year not issued a single import license. Internecine warfare and economic and social unrest have relegated Burma, Indonesia, Malaya and other areas in the Middle East—all potential buyers—to secondary positions. March figures, however, showed the West Indies as leading among the importing countries—a fact which should bear close watching.

A word here about China would not be out of place. While this has never been seriously considered a market for Hongkong's kerosene lamp owing to their being among the list of articles prohibited entry by the Chinese Government, because of the country's propinquity such products used to trickle in through smugglers, thereby accounting for a certain percentage of the sales. But since the cessation of regular shipping between here and China ports last year, this unofficial market is lost altogether.

Foreign Competition & Prices

Hongkong's lamp manufacturers have to contend with such world-known brands as the U.S. "Coleman," "Colmax" and "Sun Flame," the Swedish "Primus" and "Optimus" and the Italian "Solex" and "Tirenica." That they have been able to hold their own against such formidable competition is due to their low prices made possible by cheap labour costs. The difference of prices between the foreign and local products may be gauged from the retail prices here. Whereas the imported lanterns of 300 candle-power are sold at prices ranging from \$45 to \$90, local goods are priced at \$30 to \$40. The Italian "Solex" alone is sold at a price lower than the Hongkong product with

the result that it enjoys a good market in Egypt and Libya, although it is said to be poorer in quality.

Hurricane Lanterns

There are only two manufacturers of hurricane lanterns in the Colony, these being the World Light Factory and the Chung Mei Factory. The daily output of the former, which at its peak produced 500 dozen lanterns, is 200 dozens while the latter's output is about 100 dozens daily.

For these lanterns the golden era was in 1947 when the annual export totalled \$4,356,721. This figure dropped to \$2,984,766 in 1948 and \$680,293 in 1949. The decline of the industry is attributable to several factors. With India—which claimed 65 per cent of the export trade—ruled out because of the import ban last year and the increased cost of raw materials, etc., the manufacturers have been hard put to it in maintaining present conditions. To cope with the competition, therefore, they have resorted to cutthroat tactics which only added to their difficulties.

Conclusion

In face of the temporary setback to its foreign trade, the local lamp industry is seeking new outlets and exploring new fields for marketing its goods. Possibilities of extending its activities to South America are being studied. South America, with its many mines, oil wells, rubber plantations and fishing junks, where the metal and electrical industries are comparatively backward, offers a good market, though a limited one.

But the future of the industry still hinges on conditions in its biggest market—India, Indonesia and the Middle East. In the opinion of the manufacturers, once normal economy is restored, social conditions are stabilized and restrictions are relaxed in these countries, their goods will recapture the market, as their low prices and excellent quality of such products are selling points which few buyers can afford to ignore.

Hongkong Aviation Notes

Traffic at Kai Tak

In addition to the flights by regular users to and from Hongkong Airport, shown on the accompanying table, the airfield was also used by the following according to the monthly report of the Hongkong Dept. of Civil Aviation:—

	Arrivals		Departures	
	No. of A/c	No. of Pass.	No. of A/c	No. of Pass.
Air Carriers ..	2	—	2	22
Flying Tigers	2	—	2	62
Etab. Roger	—	—	—	—
Colin	—	—	1	3
Mr. Cosara	—	—	1	—
N. W. A.	1	4	1	30
	5	4	7	117

The 24.8 tons of mail and 142 tons of freight received and despatched from the airport during May were a considerable increase over the figures for April of 23.5 tons and 111.7 tons respectively.

The total of 445 commercial movements was a decrease of 32 against the total for April of 477, but the number of passengers travelling by air 7,068 showed an increase of 447 over the previous month. The daily average movement was 14 aircraft and 228 passengers.

Training and Service Flights

In addition to the regular users, the airfield was also used by the following:

Local training and test flights	1,249
Service — local	1,356
Service — non-local	89

Service flying showed a decrease as the result of the move of some military aircraft to a New Territories field.

Works and Buildings

The resurfacing of the main runway was completed on May 28. Flights by a jet fighter aircraft showed that damage could be caused to the new asphalt surface and a temporary runup area was prepared.

The new taxi track showed signs of subsidence and an investigation was made by the P.W.D.

Air Traffic Control

The total air movements of 3,139 gave an average of 101 a day.

Air Traffic Control was responsible for the control of the R.A.F. Display on May 20 but after two days the programme was cancelled on account of the deterioration of the weather.

Accidents

On May 11 a Ryan light aircraft Vrhdm of the Far East Flying Training School Ltd. had an engine failure on takeoff and landed in the sea. The aircraft turned over but the two occupants managed to get clear and were picked up uninjured.

Aeradio

The total traffic during the month (fixed, mobile and meteorological) handled at Kai Tak was 21,226 messages of 433,099 words.

RUBBER ESTATES OUTPUTS

Outputs from the Rubber Companies for which A. R. Burkill & Sons, Ltd., are Secretaries &/or General Managers:

	Output for May, 1950	Total this Financial Year to date
	lbs.	lbs.
Bute	66,200	317,000 (5 mths.)
Consolidated ..	100,300	514,700 (5 mths.)
Dominion	63,900	297,503 (5 mths.)
Kota Bahroe ..	70,500	762,500 (11 mths.)
Sungei Duri ..	67,500	742,600 (11 mths.)
Shanghai Pahang	45,400	520,300 (11 mths.)
Padang	17,103	333,665 (1 mth.)
Shanghai Kedah	100,400	810,687 (8 mths.)
Tanah Merah ..	100,080	186,290 (2 mths.)

Post-War Course of Japanese Economy

1. Two Features of Post-War Economies:—Underproduction and Inflation

The four years and a half since the end of the war have seen Japanese economies struggling out of the desperate confusion in which it was floundering, and after taking a zig-zag course, finally emerging under American aid into stabilized order. Of course the present plane attained by Japanese economies may be still too low to be called real stability, and the prospect may not be unconditionally optimistic, and yet there is reason to believe the trend to economic revival since 1948 is genuine and lasting. Among the other factors, the various series of economic and financial policies based on the "Nine Points," which are aimed at the extinction of the raging inflation have proved highly effective in economic stabilization during the past year, though their enforcement has not been without various frictions in the meantime.

The two outstanding features of the post-war economies were an extreme underproduction of goods due to the consumption and damage during the war, and an inflation due to the deficit finance. In Japan, whose national economy suffered an over-all destruction by the war, the above two features are to be interpreted not as temporal phenomena of unbalance, but as those rooted in a fundamental change of the economic organization.

Underproduction

The underproduction had already started during the early days of the war, but it took a sharp course of aggravation, when in 1944 Japan became cut off from the supply of raw materials from the South Seas and the Asiatic continent and when subsequently she had her industrial equipments completely destroyed by Allied bombing on the full scale. In the observation of the continuous decline of the production indexes in the mining and manufacturing industries, it should be remembered that though it is to some extent to be accounted for by the post-war circumstances, its decisive cause is to be found in the above-mentioned circumstances during the war. The hopeful thinking once prevalent that with the end of the war the civil industries would as rapidly develop as the military industries would cease, had to burst like a bubble, when Japan was faced with the baffling problem of how to feed a population of 80,000,000, providing the daily minimum of 1,500 calories a head, while her territory had been reduced to less than 60 per cent of what it was in 1930-34, and her economic sphere had been narrowed down to the utmost, and she had to depend upon her diminished productivity, which in mining and manufacture was 30-40 per cent, and in agriculture, forestry and fisheries 20-80 percent of what they used to be.

Inflation

The inflation, which together with the underproduction characterizes the post-war economies, was appearing, strictly speaking, when in 1941-2 the Bank of Japan's amount of note issues began to increase while the black market on a small scale came into being, but the full dress inflation came to the front with the sudden increase of note issues, just after the surrender.

The people's purchasing power, hitherto restrained during the war time, became fully active in the third month after the war, their savings being drawn more and more from the banks so as to bring about a steadily growing inflation. Moreover, the reckless spending of the post-war confusion, added to the aggravating inflation. Finally the urgent situation compelled the government to have recourse to a change of currency. This measure succeeded indeed in at once decreasing the amount of currency and consequently in checking the extravagance in the general consumers' life. But the imprudent financing of the industries to relieve them of the stringency of funds soon led to a relapse into inflation. Again, in 1947 the adoption of the so-called priority-production policy entailed a remarkable increase of currency through the release of the Treasury's funds and the financing by the Rehabilitation Finance Bank. This inflation due to the financial policy progressed like a wild fire, so much so that all attempts to check or stop it proved without exception to be failure. It was only brought under control when the "9 Point Program" enjoined by America in 1948 was enforced by the Japanese Government under the energetic guidance of Minister Dodge.

2. External Conditions of Economic Reconstruction

The cure of the underproduction was the central problem for economic reconstruction. The conversion of national economic life from the war-time footing to the peace-time one required fundamental changes in its organization, and its reorganization was destined to play a decisive role in setting up the system for the future production. Yet these problems were not for Japan to solve.

In this sense the principles of the Allied policy towards Japan assume important bearings on her economic reconstruction. Those principles are (1) demilitarization of Japan's economies (2) preparation for collection of reparations, and (3) out-and-out enforcement of economic democratization. Demilitarization in the narrow sense was finished by the end of 1945, but the distinction between the military industry in the broad sense and the civil industry was not always clear. The problem of reparations collection had naturally remained unsolved as it should be until the conclusion of a peace treaty, but in the days immediately following the end of the war Japan could not hope even for the de-

gree of the moderation of the terms contained in the MacCoy announcement in May, 1949. As for economic democratization it was carried out as the basic formula for post-war reconstruction so vigorously that by 1947 many a radical reform had been accomplished.

Economic democratization has taken the form of the Anti-Monopoly Law and the Excessive Economic Power Decentralization Law in the line of business; and of the agrarian land reform and the formation of farmers' cooperative associations in the field of agriculture; and of the encouragement of the labour union movement and the enactment of various labour laws of the progressive nature as far as labour relations are concerned; and all these measures have produced deep and extensive results in national economy. Of course the aim of economic democratization was not to hamper the progress of the economic revival, but on the contrary it was to provide the foundation on which to build up a sound national economy. But as a matter of fact, since these measures were too drastic for the actual Japanese social conditions, they became responsible for obstructions to reconstruction not in a few cases.

3. Stages of the Post-War Course of Japanese Economies

For convenience sake, the post-war course of Japanese economies is here divided into four stages. The first stage comprises the period from August, 1945 to February, 1946, in which month the measure of change of currency was taken. The second period covers the months from February, 1946 to the end of the year, during which there existed no plans for reconstruction, so confusion reigned unchecked over the economic world. The third period was the whole of 1947, which may be regarded as marking the incipient economic revival, with the priority production policy as its guiding principle. The fourth period comprised the whole year of 1948, with the American Government's presentation of the "9 Points Program," which may be regarded as the period of regular economic order in the making characterized by active aids from American and by loud clamours for foreign capital induction on the part of Japan. Having traversed these four stages, Japanese economies have merged to reach the present condition of comparative stability, which owes a great deal to the rigorous enforcement of what is called the "Dodge line" aimed at the arresting of the inflationary tendency. The progress of Japanese economies from the war end to the Dodge line is traced more in detail through these four stages in the following.

(a) First Stage—Confusion

(August, 1945—February, 1946)

Utter chaos prevailed in the economic world during these six months causing the production to fall rapidly and sharply. For instance, the production of coal was reduced from 1,670,000 tons in August, the month of termination of hostilities, to 550,000

tons in November, while that of ordinary steel diminished from 12,000 tons in August to 8,000 tons on the monthly average during the period from September till November. Under these circumstances, the industries in general became practically suspended, and the shortage of fuel compelled the railway service to be curtailed.

As to the currency situation, the issue of the Bank of Japan notes showed a sharp rise chiefly on account of the random payment of war funds that was started immediately after the cessation of the war. In only half a month, ¥13,700 million was defrayed. By the time the urgent currency measure was taken in February of the following year, ¥43,200 million of war funds had been defrayed with the result that the total issue of banknotes attained ¥61,800 million. In November, SCAP issued directives ordering a financial reform, etc. for checking the increasing issue of banknotes. In spite of such measures, people draw away their deposit for the purpose of maintaining their living therewith or converting it into goods. It was utterly impossible to check the tendencies towards an inflation. In this way, the inflation, of which the latent power had been developed during the war, here showed itself explosively, causing an acute rise in the prices of commodities. On the whole the index number of blackmarket prices of consumption goods doubled itself during the five months from September, 1945, to February 1946. The social confusion and shortage of materials caused by the defeat in the war made blackmarket transactions remarkably active and spurred the inflation and conversion of money into goods. To make the matter worse, the food unrest was deepened extremely at this time by the lean rice crop for the 1945 rice year and the poor rice delivery. Most of the people were obliged to invest all of their savings and earnings in foodstuffs. Consequently, people spoke of "Foodstuff inflation."

The above-mentioned circumstances aggravated the critical condition of the national life. The general social unrest served to forward the labour movement. The number of strikes in each month increased rapidly from 1 in August to 32 in October and 218 in January. The number of strikers increased accordingly. That is, it increased from 129 in August to 67,292 in October and more than 220,000 in January. Most of those labour troubles were activated by a demand for a wage increase with which to protect their livelihood from the threat of the inflation.

(b) Second Stage—Hesitation

(February, 1946—December)

To curb the inflation that was rapidly progressing during a half-year that followed the termination of the war, the Government enforced an exchange of currency and collection of property tax. That is to say, every one was compelled on February, 1946, to exchange a certain amount of his money for new currency and to deposit the

rest of his money in banking institutions. Consequently, the issue amount of the Bank of Japan notes, which stood at ¥61,800 million on February 18, diminished to ¥15,200 million on March 12. At the same time, property survey was carried out to facilitate the collection of property tax; urgent food-stuff measures were taken and price control and production and distribution control of goods were intensified.

The currency that was decreased as mentioned above, however, began to increase again. In September, the issue amount exceeded the level in February and it reached ¥93,300 million at the end of the year. The first reason is that the money that was once compulsorily deposited in financial institutions was drawn with an increase in the living expenses. Secondly, additional budget bills were passed twice with the result that the sum total of the general account and special accounts contained ¥60,500 million of public bonds and loans. And the Government's funds released represented 42 per cent of the increment in the Bank of Japan note issue. Thirdly, as the principal means for promoting production, large amounts of funds were supplied to private concerns and individuals. That is, the credit that was extended in New Yen by banking institutions all over the country attained more than ¥40,000 million at the end of the year. Hereupon, an inflation again began to prevail, despite the inflation-curing measures taken at the beginning of the year. This inflationary tendency worsened the straitened living condition of the masses. The official prices of commodities were raised by more than 50 per cent on an average in March. As to blackmarket prices, they showed a slight fall for a little while as the result of the currency contraction. But they began to rise sharply in November again. The food situation had been worsening since the first stage. Toward the end of June, rationing of food in cities was delayed by more than 20 days. All the efforts of the Government to meet the situation were fruitless. At the last stage of dearth, however, a large quantity of imported foodstuffs were released. By this, the food crisis was tidied over. This critical food situation resulted in flowing of money into farming communities. According to a survey conducted at the end of May, 1946, it was estimated that 51.8 per cent of the total amount of currency in circulation had flowed into rural communities.

The labour movement which had been started during the first stage was made more active during this stage. The labourers who participated in the March strikes numbered 73,000. The enforcement of the Trade Union Law in March increased the number of trade unions from 500 with 380,000 members at the beginning of the year to 17,000 with the membership of 4,400,000 at the close of the year. Besides making a request for an increase in wages, trade unions began, in the name of democratization of industry, to control production. This was a new type of a strike.

With the development of the labour situation, management got rid of the stupor after the cessation of the war and reconstruction of industries through conversion into peace-time industries and through supply of funds was planned. Fertilizer production and cotton-spinning industry was rehabilitated to a remarkable extent. But the production index of the mining and manufacturing industries, which stood at the beginning of the year at 17.3 with the prewar level (the average from 1933 to 1935) as the basis, rose only to 37.9 by the end of the year.

(c) Third Stage—Priority Production

(January, 1947—January, 1948)

The rehabilitation of the industrial and mining production during 1946 was very slow. The underproduction was not overcome. The coal production, which is essential to all other branches of industry, was still inactive. The power-supply was insufficient due to a drought after October. This insufficiency in power-supply, together with the shortage of raw materials for industrial production, aroused much discussion on the coming of a production crisis. It was at this time that the so-called priority production formula was enforced. This formula was designed to raise the production of basic production goods, such as coal, iron and steel, by giving priority to their production. Through preferential allocation of raw materials and funds, the coal output increased in 1946 from 20 million tons to 27 million tons; the production of ordinary steel material increased from 290,000 tons to 480,000 tons. The index number of the industrial and mining production rose from 33.4 in January, 1947, to 49.4 at the year's end. Industries in general were victimized by the above-mentioned preferentially-treated basic industries, crude oil was more and more imported from the United States and various urgent measures were taken for the coal production. But what is most noteworthy is the supply of a huge amount of industrial fund by the Rehabilitation Finance Bank started in January, 1947. The major part of the fund was supplied through increased issue of the Bank of Japan notes. It is true that ¥40,000 million of currency released during the year through the channel of the Rehabilitation Finance Bank aggravated the inflation. But it is undeniable that the fund thus furnished did much towards the industrial restoration. During this stage, the Government special accounts showed a red figure of ¥73,000 million (¥60,500 million for the preceding fiscal year). Accordingly, even the State finance itself spurred the inflation.

In short, the enforcement of the priority production formula and the increased importation of essential production materials brought about a considerable increase in production. But the inflation was thereby aggravated remarkably, which weakened the foundation of enterprises and kept the national life in destitution.

The labour movement became extremely political and the February 1 general strike was about to break out, when SCAP ordered its halt. By the National Public Service Law enacted in October, restriction was placed upon a too radical labour movement. But the trade union movement became still more vehement. In December, strikes numbered as many as 138 with 1,930,000 participants.

(d) Fourth Stage—Revival

(February, 1948—December)

"The Finance White Paper" prepared by the Government ascribes the aggravation of the inflation during 1947 to an unbalance in time between the State incomings and outgoings. From the beginning of 1948, tax collection was expedited and the Government payment was controlled to the utmost extent. As a result, receipts of the Government funds exceeded disbursements remarkably. The issue of the Bank of Japan notes decreased by ¥1 billion in January, by ¥2.7 billion in February. Such a phenomenon was unprecedented since the urgent currency measure taken in February 1, 1946.

The U.S. policy towards Japan became active with the delivery of a speech regarding Japan by Secretary of War Royall in January, 1948, and Undersecretary of War Draper's visit to Japan in February. Further, collection of reparations was alleviated, supply of relief materials was increased and in July the Deconcentration of Excessive Economic Power Law was loosened.

The above-mentioned favourable turn of circumstances stimulated an idea of expediting rehabilitation by introducing foreign capital into Japan. And the control of supply of fund was strengthened for the purpose of curbing the inflation. But introduction of foreign capital was not materialized because the economic condition was not yet fully stabilized. The inflation was again worsening. That is to say, the currency issue began to rise again in March and ¥130,000 million was the increase during the year. There was no sign of termination of the inflationary trend. The people who had been suffering from the inflation-ridden economy since the cessation of the war were surely relieved from the acute food unrest by the increasing supply of imported food-stuffs. But their living was made still more difficult by a sharp rise in the official prices of daily necessities and rigorous collection of taxes.

Labour offensive again became active from the end of the preceding year with big trade unions, such as the All-Japan Communications Workers' Union, the Japan Electric Industry Workers' Union, the All-Japan Coal Workers' Union, as its leading organizations. Besides requesting a raise in wages, they objected to personnel readjustment. The workers that participated in the strikes that broke out during January and April numbered more than 2 millions. But by a SCAP directive again issued, large-scale strikes were put to an end.

The Japanese Economy in 1949

1. Stoppage of inflation.

(1) STABILIZATION OF THE CURRENCY.

The note issue of the Bank of Japan, which recorded ¥335,300 million at the end of 1948, steadily declined during 1949, except toward the year-end, when it rose again to some extent. In this

Further, as the "Three Wage Principles" sent to the Japanese Government from GHQ in November placed some restrictions upon the payment of wages of industries, the labour movement came to follow a new direction and to assume a different phase.

On the strength of the positive aid by the United States, production rose from 45.6 in January, 1948, to 71.2 in December. Above all the rising tendency after September was remarkable. That is to say, the coal distribution increased by 40 per cent as compared with the preceding year; the power-supply increased by 10 per cent. The increase in the imported fuel was remarkable especially during the latter half of the year. The production of ordinary steel material, 26,000 tons in January, rose to 46,000 tons in December. The traffic volume rose from 8.6 million tons in January to 12 million tons in December by dint of repairing of a large number of cars. The volume of marine transportation was increased by 60 per cent as compared with the preceding year because ship repairing progressed smoothly.

In short, industrial and mining production showed an increase of 40 per cent during the year in question. But it involved two unsound elements in its base; first, the production increase was made possible by a financial outlay which exceeded that of the preceding year and with the support of the inflation; second, the production increase was made possible not by an advancement in the production technique and an enhancement of the production efficiency but solely on the strength of foreign aid. As to the production facilities, they have deteriorated by reckless use during the war. They require a lot of funds and materials for repairing for an increased production in future.

Now it was feared that the economic stabilization and independence of Japan, the target of the U.S. aid policy toward Japan, might not necessarily be attained by a mere quantitative increase in production. Thereupon, GHQ communicated the so-called 10 essentials of economic stabilization program to the Japanese Government in July. But before they were materialized, the United States Government forwarded the Nine-point Economic Stabilization Program having the same purport to SCAP, GHQ as an interim directive. The objectives set forth in this interim directive are: (1) To place the Japanese economy on a sound basis; (2) to control credit extension; (3) to control wages and prices; (4) to strengthen

seasonal movement of the currency, a normal trend of the prewar period could be seen in some degree. The currency during 1949 increased only by ¥31 million. This increase must be said to be very slight as compared with the increase of ¥136,100 million and of ¥125,700 million respectively for 1948 and 1947. Considered from this point

control of materials; (5) to increase production and to develop natural resources; (6) to promote the export trade. Especially noticeable is the fact that stress was laid on attaining economic stabilization for the early establishment of a single general exchange rate.

4. Arrival of Minister Dodge

In February, 1949, Mr Joseph M. Dodge, President of the Detroit Bank, came to Japan to give advice regarding the measures for stabilizing the Japanese economy and placing it on a self-supporting basis. He is an expert in international finance and worked as an adviser on the occasion of the currency reform in Western Germany.

According to Minister Dodge, the Japanese economy is the stilts whose one leg is supported by the U.S. aid and the other leg by governmental subsidies, and the economic independence and stabilization of Japan cannot be attained until those two legs are cut away. It was, therefore, requested that Japan should early put an end to such an economic condition under which the Japanese rely upon the U.S. taxpayers. The efforts he made during his three month's stay in Japan produced two desirable results.

(1) The balanced budget for the 1949 fiscal year.

A truly balanced comprehensive budget was formulated. New issuance of bonds was prohibited. Efforts were made either to curtail or to abolish various kinds of government subsidies. The interdependence between the State finance and enterprises was cut off so that rationalization of the latter might be carried. That is to say, economic rationalization was vigorously prosecuted.

(2) Establishment of a single exchange rate.

On April 25, an exchange rate of ¥360 for 1 dollar was fixed. This step was intended to enable Japan to curb the inflation through balanced governmental finance, to secure stability of Yen value and to enter into normal international trade relations.

By the above-mentioned measures, the Japanese economy was placed on the road to economic stability and independence for the first time since the termination of the war. But it is undeniable that strict pursuance of the Nine-point Program necessarily exercised a considerable influence upon the Japanese economy which was still in destitution

of view, the currency stabilization measure taken along the Dodge Line has given a splendid result.

This stabilization of the currency was brought primarily by the execution of the balanced Budget for the fiscal year 1949-50, which contained various factors bringing about a currency shrinkage of ¥130,000 million. As the execution of this Budget progressed, the receipts and disbursements of fiscal funds turned in June to an excess of receipts, effecting a currency shrinkage. As a combined result of the favourable collection of taxes, redemption of the Reconstruction Finance Bank debentures amounting to ¥85,600 million and the control over the releases of the Counterpart Fund to industries, etc., the excess of Government receipts over disbursements amounted to ¥80,800 million excluding the redemption of food-certificate to city banks whereas in 1948 the excess of disbursements over receipts was ¥142,900 million.

The financial institutions were given the role of maintaining the disinflationary line. The Policy Board of the Bank of Japan created in June carried out a series of such disinflation measures as the mitigation of the system of applying high rates, purchase of national bonds and Reconstruction Finance Bank debentures, lowering of the interest rates of city banks, extension of the frame-work for the accommodation of funds to medium and small-sized enterprises, mitigation of the regulations governing accommodation of funds, and the like. The additional credit of the Bank of Japan for covering the above-mentioned factors of currency-shrinkage reached ¥79,900 million including ¥33,700 million of loans (the increment in 1949), ¥31,900 million of national bonds and Reconstruction Finance Bank debentures purchased from city banks and others. This showed a considerable increase as compared with the additional credit in the same period of 1948, which amounted to ¥5,300 million.

As a result of these positive operations of the Bank of Japan and the cooperation of financial institutions in the economic stabilization program of the Government, the aggregate of the loans of all banks in 1949 increased by ¥297,700 million as against the increase of ¥286,600 million in deposits. If issues of stocks and debentures are included, the supply of industrial funds reached ¥416,404 million in the April-December period, showing an increase of 20 per cent as compared with the ¥348,499 million reached in the same period of 1948. In this way, the so-called disinflation-line was maintained in 1949.

The principal aim of the economic stabilization program was to stabilize the currency through redemptions of national bonds, etc., for the smooth supply of industrial funds, the banking operations being made to cover the deflationary factors in the budgetary measures of the Government. City banks positively cooperated in the maintenance of disinflation policies of

the Government. As a result, the ratio of loan increment to deposit increment rose to 99% in 1949 as compared with 48% in 1935, and the balance ratio of securities to deposits fell from 24% at the end of 1948 to 14% at the end of 1949, these being figures compiled from the accounts of all commercial banks. It must be noticed that, in this way, the composition of assets was placed in unstable conditions.

(2) STABILIZATION OF THE PRICE LEVEL

Owing to the currency stabilization resulting from the aforesaid changes in financial and monetary conditions on one hand, and to the relatively increased capacity of commodity supply on the other, the blackmarket prices for production goods declined by 24 per cent and the same for consumption goods by 14 per cent during the ten months from March to December in 1949. This can be said a striking improvement when compared with the rise of the blackmarket prices for production goods by 6 per cent and of the same for consumption goods by 17 per cent during the same period in 1948. As to the official price level, there was a rise of more than 10 per cent due to various factors including the reduction of State price subsidies carried out in 1949. The consolidated effective price index of these two price levels, black-market and official, showed a decline of 4 per cent as of the nine months from April to December in the same year. In general, the price levels have since been maintained on such altitude.

At the very beginning of 1949 this price stability began to show its effect in holding in check the rising tendency of the industrial average wages, putting a period to the progress of the so called vicious cycle of prices and wages.

2. Normalization and Rationalization of the Economic Structure

The stabilization toward normalcy of the economy has strongly reacted on the prices which are indicators of the economic activities, and, as a result, rapid progress is seen in revision of the price structure. This can be noticed in two features. One is that price structure has begun to approach the levels of world market prices, and the other is that the margin between the black-market and the official prices is becoming narrower; that is, the double price structure is shrinking.

The established single exchange rate for the yen urged to bring the prices of export goods nearer to the levels of world market prices. Moreover, following the drastic reduction of State price subsidies, the revision of the price structure became unavoidable.

When the ¥360 exchange rate for a dollar was set up on April 25, 1949, price subsidies totalling 83,300 million yen were authorized to be granted during the year on around thirty items of imports, such as foodstuffs, fertilizers and raw materials for key indus-

tries, for the purpose of holding the rise of domestic prices in check. But it was decided that no subsidies should be given to the export goods, the prices whereof had to come down to the levels of world market prices. Further, in the Revised Budget the appropriated price subsidies to imported goods were curtailed by 10,000 million yen particularly as a result of the reduction of the unit subsidy to coal and other items, though there was an increase in the importation of foodstuffs.

On the other hand, in the fiscal year 1949-50 Budget the appropriation of subsidies to such materials in the "stabilization belt" as lead, zinc and aluminium was abolished and the unit subsidies to iron, steel, fertilizers and soda were reduced. Besides, in the Revised Budget the appropriations of subsidies to special varieties of coal as from August and to copper as from October were abolished to economize the state expenditure as much as 13,000 million yen throughout the year.

Together with such curtailment of subsidies to imported goods and the special materials in the "stabilization belt," even the prices of goods not imported are now being forced to approach the world market levels.

As regards the fluctuations of prices taking place in and after April, a rising trend approaching the world market levels is seen both in the producers' and the consumers' prices of iron and steel to which the subsidies were drastically cut, while the prices of coal and electrolytic copper are declining towards the U.S. levels. That the reduction of subsidies worked to put Japanese prices of ammonium sulphate and caustic soda apart from the U.S. levels may be explained from the fact that Japanese prices of coal, imported salt and other important materials are higher than the world levels owing to the economic situation peculiar to this country.

As to double price structure in Japan, a trend to normalcy appeared. For instance, the rate of the black-market prices to the official prices was nine-fold for production goods and eight-fold for consumption goods in December, 1947, but as of same month in 1949 it shrank to 1.8-fold for either goods.

With the progress of such improvement, the controls over the prices (which declined by 47 per cent at the end of March this year) and the distribution of goods were rapidly removed one after another. The number of distribution agencies called "Kodan" once reached fifteen, but the Coal Distribution Kodan and four others have already been abolished, and the rest will be also dissolved in the near future. Thus, the basis for free competitive economy is becoming larger and larger.

Further, the realized stability of economy and the enlarged range of free competition have accelerated the rationalization of industry, the promotion of labour productivity, the improvement in the quality of manufactured goods, and the reduction of pro-

duction costs in wider fields. For instance, in April, 1949, the monthly average of coal output per collier was 7.4 tons, but the figures rose to 8.1 tons in November, 1949. The quality of coal dug out became better, too. The average thermal unit of coal bought by the National Railways rose from 5,540 calories in August, 1947 to 6,000 calories in August, 1949. The prices of coal declined by 13 per cent on the national average during the six months from January to June in the same year.

But attention must be paid to the fact that such stabilization has chiefly been bought about by an easy way such as the increase in the rate of manufacturing operation, the intensification of production and the readjustment of over-employment, and not by the modernization of capital equipment and productive technique in the sense of betterment.

3. Foreign Trade

What change did the excess of imports, which are compared to "one leg of stilts," undergo in 1949? In 1948, the exports of ¥258 million and the imports of ¥682 million produced the ¥424 million excess of the latter. In 1949, the unfavourable balance of trade amounted in sum to ¥355 million, the exports and imports totalling ¥510 million and ¥865 million respectively. The rate of actual exportation to the real importation was 33% in 1947, 38% in 1948, and as high as 79% in 1949.

The stabilization program aims eventually to make the national economy take the independent stand by means of the increase of exports. The economy will normally proceed, in case the depressed domestic purchasing power is replenished by the exportation demand. In 1949, however, the foreign markets were not favourable. The exports were at a standstill under the following worse conditions: "The disinflationary trend prevailed, dating back to February when the U.S. began to face the recession in business; the seller's market in the world was transformed into that of buyer's market as the European economy had recovered; foreign countries restricted imports because of the dollar shortage; there existed the political and economic unrest in the Orient; many countries reduced the exchange rate, having been stimulated by Great Britain who devalued the pound on September 18, 1949. But, fortunately, the instability of the yen caused by the pound devaluation dissolved afterward. The Anglo-Japanese commercial agreement was concluded. The floor price system was abolished. Korea, Indonesia, and others utilized the ECA fund. The expansion of exportation was scheduled under the Logan and Freile Plans. The control over exportation and importation was taken away. Foreign trade was facilitated by the implementation of private imports. There were, however, too many obstacles abroad to increase exports through the reduction of cost.

4. Effective Demand and Production

As has been mentioned, the stabilization plan gave rise to economic normalcy. The improvement of efficiency and cut of cost assisted Japan in taking part in the world economy. But exportation did not increase as has been expected. Together with the curtailment of domestic investments in equipments, this led to the decline of effective demand.

The domestic investment registered a large fall by the reduction of expenditures of investment character (for railroads, communications, public works) in the 1949 fiscal year, the suspension of loans from the Reconstruction Finance Bank, and the delayed release of the Counterpart Fund.

The national railroad works account and telecommunications construction account of 1949 showed a decrease in substance of 48% and 27% respectively, as compared with the preceding year. The rolling stock and communications industries which depended chiefly on them cut down their personnel by 20% to 40% accordingly. The expenses for public works were 67% (after revision on account of price fluctuations) less than those in 1948. The reconstruction plan was compressed. The house building was also inactive: 80,000 dwellings in April, 40,000 in July, and 28,000 in December were erected. This shows the conspicuous decrease in construction. As the expenditures for public works diminished, smaller engineering and construction enterprises required speed adjustment.

The suspension of loans from the Reconstruction Finance Bank strongly affected the key industries. As of March 31, 1949, 99% of equipment fund in the coal industry, 95% in the electric power industry, 84% in the shipping business, and 79% in the iron and steel industry had come from these loans. It has already been stated the successful lending of the banking institutions became the prop of disinflation. The supply of equipment fund amounted in sum to as much as ¥22.2 billion in March—December. This means an increase of ¥7.3 billion in comparison with that in the same period of 1948. Considering the structure of bank accounts, the financial institutions in general cannot, needless to say, take the place of the Reconstruction Finance Bank in the field of supply of equipment fund.

As for the increase of capital and debentures, the payment of stocks aggregated ¥82.2 billion which was twice as much as that in 1948. Out of this sum, 27% was used for the equipment fund, but the most part was employed for clearing the debts made for purpose of emergency equipment fund.

The debentures, for which the favorable stops were taken by the Bank of Japan, swelled up in sum from ¥0.5 billion in 1948 to ¥16.5 billion in 1949. As in the case of stocks, however, only 34% of this amount was directly invested in the equipment fund.

The absorption of general investors' funds was checked by the deterioration of living standard of the people. On the other hand, the release of holdings of the Securities Co-ordinating and Liquidating Committee and the increase of stocks through the "owned capital first principle" had brought about the persistent dullness of stock-market since the mid-year. The stock price fell to a great extent. Its index, running from 490 in January up to 700 in May, settled at 500-600. It was thought impossible to expect more equipment fund from the stock market.

Although great hope was entertained of the operation of the Counterpart Fund which is the supply source of equipment fund, the amount released from it at the end of 1949 totalled ¥66.6 billion, out of which merely ¥5.4 billion was laid out in private equipments. This was the natural result, because the first object of the use of the Counterpart Fund is for the stabilization of finance and currency, which cannot be realized without equilibrium in the production program. It was considered, therefore, that favourable consideration would be given to this situation.

Even if the loan from the Counterpart Fund be augmented, the investment in equipments would, it was anticipated, be limited to about ¥80 billion during the year, which means 40% less than in the preceding year.

The shrinkage of investment, the retardation of consumption levels, and the adverse exportation resulted in the shortage of effective demand. This was indicated by the accumulated coal of 5 million tons, the ¥59.1 billion stockpiles held at the close of December by the Mineral & Industrial Products Foreign Trade "Kodan," and the Textile Foreign Trade "Kodan," and the ¥84.6 billion stocks in the principal makers' hands, as of December. The reason why the production was not quickly cut down in the face of such a great amount of stockpiles and the increase of sales credit was that the entrepreneurs, reducing the cost through the maintenance and enhancement of operation degree, tried to reserve the competitive capacity against the lowering of effective demand, and that the banks accommodated them with loans for their stockpiles.

Despite the inflation, the production was raised by 41% during one year ending March 1949, owing to the good condition of fuel, electric power and materials at the end of 1948. The index of production activities published by ESS of SCAP (taking 1932-36 as 100, including the electric power and gas) declined in August and recovered in October reaching 80.6 in that month, and 82.3 in December. The production in 1949, however, stood almost on the same level after April. It is noteworthy that the stagnant trend of production gave birth to a new development of the situation. Because of the severe competition in foreign markets as well as the reduction or abolition of subsidies, much was to depend upon the rationalization and the high degree of

operation followed by the expansion of investment and exportation.

5. Trends in the Social Phase

In the rationalization of enterprises, importance was attached to the adjustment of surplus employment. According to the investigation made by the Labour Ministry, employment was abridged in 1949 while it was on the upward way in the preceding year. In January–October, all the industries except agriculture saw 6.9% decline of employment. There was among other things a remarkable decrease of employment in the industries which were greatly influenced by the disinflationary tendency. There were 12.8% diminution of employment in the apparatus manufacturing industry, 12.79% in the transportation and communications business, and 11.46% in the coal mining industry. This diminution of employment covered also the medium and small scaled enterprises.

Representing 70% of all the employment, smaller enterprises were placed in a disadvantageous position. For the undesirable conditions of subcontracts, the adjustment of enterprises, the reduction of wages, and the delay or lack of ration were the prevailing phenomena.

The contraction of industrial employment quantity, together with the administrative adjustment (July–September) followed by the financial retrenchment, and the increase of repatriates ended in the enlargement of the unemployed.

The real number of the unemployed given in the labour power investigation was barely 470,000 in September which was the peak time. On account of the peculiar pattern of family economy and immature social security system, the unemployed were not satisfactorily listed in the statistics. The potential unemployed were far more than that number. The parttimers who worked less than 34 hours a week doubled in number, compared with 1949. The unemployment insurance reached in number almost 20 times as high as in the preceding year. The job applicants exceeded 8 times as many as the employers wanted. The workers in agriculture and forestry were multiplied by nearly 3 million, as compared with those in the same period in 1948. These facts envisaged the latent tendency of unemployment.

The brightest features in 1949 appeared in the better condition of food. Foodstuffs of 1,850,000 tons were imported in 1949, against 1,250,000 tons in 1948, which means 48% increase. Rice was collected very smoothly; quality and quantity of foodstuffs were improved; blackmarket prices of staple foodstuffs were declining; abolition of control over potatoes and raise of ration quantity were also taken into consideration.

The farmers, who enjoyed better life than the urban dwellers did when there was the food shortage, had been hard hit by increase of tax, enlargement of "scissors form" differences of prices, and contraction of blackmarkets for

Survey of Present Economic Position of Japan

General: The government economic stabilization policy which had started last April with the enforcement of a balanced budget for the current fiscal year has shown a steady development. Currency circulation has shown a deflationary movement. Commodity prices are gradually declining, and, following the readjustment of raw material prices, electric power charges and freight rates and the abolition of price subsidies and other financial assistance, price structure is returning to a normal state. Under these circumstances, business rationalization has developed markedly, and enterprise readjustment is now in progress.

In the above process, however, the deflationary trend has been more pronounced than expected, owing to the unfavourable export trade. A considerable decline of market prices and accumulation of unsold stocks, as well as the prevailing monetary stringency, have severely affected industry, especially small and medium sized enterprises, the greater part of which are inefficient and financially weak. Forced tax collection scheduled for the period from January to March is likely

agricultural products. Under these circumstances money tightness arose in the rural districts.

The deposit accounts of cooperatives abated; the account of the Central Co-operative Bank for Agriculture and Forestry was stagnant; in the national distribution of currency the ratio for the agricultural and fishing villages was decreasing, with 29.4% in 1947, 22.3% in 1948, and 19.2% in 1949 (in December respectively).

It was feared that the agricultural panic may come soon. For agriculture, though it took a new start with the agrarian land reform, was getting smaller-scaled and the world was now confronted with a food surplus.

The rising tide of average industrial wages, which had until 1948 soared by 10% every month, was brought to an end, when the year 1949 came in. They were stabilized at about ¥8,500, and the change in real wages also become sluggish. According to the investigation of domestic economy, the city dwellers' average living standard did not go upward strikingly. Indicating over 60% in the Engel's coefficient, the living standard represented roughly 70% of that in the prewar period (1934–36).

Finally, let us take up the labour movement. The left-wing radical influence retreating, the "Mindō" group came to the front instead. This situation was very characteristic in 1949. It was of a great significance that, though the improvement of allowances had in the past been the pivotal point, such defensive steps as preventive measures against personnel adjustment and lowering of allowances tended to be taken. In addition to this, Japan's labour relations with abroad were getting closer, and the labour movement of Japan joined international organisations.

to hit these enterprises very hard and will aggravate monetary stringency. In order to meet this situation, the government and the Bank of Japan have prepared various measures through the release of Counterpart Fund for U.S. aid and an increased supply of funds to banking institutions. However, city banks are hesitating to advance loans to enterprises on an unsound basis, and small and medium enterprises may be faced with a critical period in the near future.

The larger enterprises have more or less succeeded in personnel readjustment and have set about a fundamental rationalization through technical improvements and modernization of equipment. In this connection, closer relations with overseas companies which have been established to some extent are urged by the government. If production costs can be lowered, these enterprises will in the near future be able to meet international competition.

Money and Credit: According to a report of the Ministry of Finance, tax and stamp revenue during the current fiscal year until last December amounted to 329.5 billion yen as compared with 516.0 billion yen in the budget estimates. Thus, the collection of the remaining 186.5 billion yen will be concentrated in the period from January to March. Tax and stamp revenue in January reached 56.3 billion yen as compared with 36.0 billion yen, average for April through December last year. As a result, government loans from the Bank of Japan declined by 12.7 billion yen during the month.

Owing to the above forced tax collection, combined with seasonal factors, currency circulation declined from 355.3 billion yen at the end of last year to 320.3 billion yen at the end of January and further to 311.8 billion yen on February 28.

In anticipation of the aggravation of the monetary stringency in the period from January to March, caused by forced tax collection, the government and the Bank of Japan have decided to promote the release of Counterpart Fund and to increase the supply of funds to banks through market operations of the Bank of Japan. According to the government program, 29.9 billion yen from the Counterpart Fund were to be released during the said three months, 4.8 billion yen for government enterprises and 25.0 billion yen for private businesses. However, the actual release in January was only 2.6 billion yen and 1.8 billion yen, respectively. On the other hand, 2.6 billion yen were released for the redemption of Reconstruction Finance Bank debentures and 37.7 billion yen for the absorption of food certificates. As regards the open market policy, the Bank of Japan prepared a schedule to purchase government bonds amounting to 23.0 billion yen held by banking institutions during this period, but only 3.7 billion yen were actually purchased in January as against the planned figure of 9.4 billion yen. Gov-

ernment bonds held by banks amounted to only 96 billion yen as of the end of last December, of which 63 billion yen were earmarked for general business. Banking institutions were therefore hesitant to sell these bonds, and, more fundamentally, city banks would not increase their advances because of the aggravating business depression as well as obscure future prospects. Government monetary policy for the period laid special stress upon accommodation to small and medium enterprises, and a plan envisaged for the release of 100 million yen per month from the Counterpart Fund and the accommodation of special funds amounting to 3.3 billion yen from the Bank of Japan. However, on account of the cautious attitude of city banks, no satisfactory result has yet been obtained.

As shown above, the government monetary policy has not yet developed satisfactorily. As a consequence, the government decided, on February 2, to accommodate the Foreign Trade Public Corporation with 15.0 billion yen from Deposit Bureau funds. Furthermore, the reopening of special deposits by the Bank of Japan with city banks was decided on February 23, although these funds will return to the Bank through the redemption of loans.

As the present monetary stringency is mainly attributable to the cautious attitude of city banks, there is no means other than the reestablishment of sound management by borrowers to alleviate the money shortage.

Security Market: Reflecting general monetary stringency, the security market continued weak and dull. Although there was some recovery towards the end of last December following a sharp collapse experienced on December 14, the stock exchanges again became bearish in January, with a severe decline in high-priced stocks. According to statistics compiled by the Tokyo Stock Exchange, the stock price index for January registered a drop of 14.2 per cent and 60.1 per cent compared with the previous month and the post-war peak of May 1949. Owing to lower stock quotations, it became difficult to raise long-term funds necessary for the enforcement of business rationalization through increase of capital. Capital increases in January and February were roughly estimated at 1,650 million yen and 2,096 million yen, respectively, as compared with 11,802 million yen in last November. In view of the above situation, the government is now seriously investigating effective countermeasures centering upon financial assistance.

The security market recovered to some extent in February through speculative buying of highpriced stocks, but most stocks were left at a low level.

Prices: In order to normalize the price structure which had been distorted by the low price policy for basic materials and services, the government successively abolished price subsidies, and, at the same time, raised electric power charges and freight rates to a reasonable level. In January, subsidies

for iron and steel, sulphate of ammonium, calcium cyanamide, etc. were reduced or abolished, and official consumers' prices (producers' prices too for iron and steel), as well as marine and railway freight rates were raised. In anticipation of business rationalization, price advances were limited to a minimum, nevertheless they affected industries through declining demand. During the same month, consumers' prices of staple foods were also revised.

Due to higher official prices of basic materials and services, free and black market prices of some materials such as iron and steel, high-grade coal, etc. showed an upward movement. Thus, despite the business depression, the free and black market price index for producers' goods, according to statistics compiled by the Bank of Japan, showed little change in January. However, owing to the decline of effective demand and an increased supply of commodities, free and black market prices of consumers' goods continued to decline, particularly textile goods and seasonings. According to the same statistics, the consumers' price index in January showed a decline of 3.2 per cent compared with the previous month. The producers' and consumers' price indices in the same month were 25.5 per cent and 22.7 per cent lower than the post-war high (February and April 1949).

In view of the above situation, government price control as well as distribution control has been successively abolished. The number of commodities controlled by the government diminished from 2,129 in March 1949 to 1,299 in December, and 560 of the latter are scheduled to be removed from control before August. In January, cement, timber, secondary products of steel, rayon and rayon products, ramie, flax, hemp and jute, Japanese paper, etc. were removed from price control.

Lower price and the higher cost of raw material affected industry in general, necessitating further rationalization.

Industrial Production: In expectation of an improvement in the export trade and a price advance following higher electric power charges, freight rates and the reduction of price subsidies, industrial production which had been stagnant since April 1949 registered some increase after September. According to statistics compiled by the Economic Stabilization Board, the production index in December advanced by 9 per cent compared with the previous month, reaching 87.2 per cent of the pre-war level (average for 1933-35). By industrial groups, mechanical engineering, metals and the mining industries exceeded the pre-war level, whilst the production of consumers' goods such as textiles and food processing remained at a low level.

Despite a slackening trend after April, annual production in 1949 showed advance of 31.8 per cent compared with the previous year (32.8 per cent a year earlier), due to a considerable advance in ceramics and metals, and the steady increase in the textile and food processing branches, whilst me-

chanical engineering and timbering remained stagnant. By commodities, iron and steel, aluminium, spinning machines, cameras, alcohol, paints, rayon filament tissues, etc. advanced sharply.

The recent production increase seems to have been based upon a higher operation rate by enterprises for the reduction of unit production costs to cope with competition. Accordingly, the production increase resulted in overproduction, with deteriorating market situation and accumulating unsold stocks. Under these circumstances, small and medium enterprises were faced with great difficulties. With higher production costs, most of these enterprises found it difficult to compete with larger companies. A price decline because of unsold stocks also severely affected the smaller producers. These difficulties were increased by the cautious attitude of city banks which stopped financial accommodation for increasing stocks and business rationalization.

The future development of the large enterprises will depend upon the enforcement of rationalization. Most of them have succeeded in personnel readjustment, and started technical improvement and modernization of equipment. The importation of modern technique and equipment has already materialized to some extent, and will be accelerated in the future. If these large enterprises succeed in lowering production costs and improving the quality of products, they will be able to cope with competition in overseas market. However, due to market conditions abroad, an early recovery in the Japanese export trade cannot be expected.

FOREIGN TRADE

To cope with the pound sterling devaluation, the government endeavoured to promote trade agreements according to the recommendation of Mr. Logan. Thus, trade agreements with sterling areas, Germany, Thailand, etc. have been successively concluded. In order to increase exports to agreement areas, priority was given to imports from the same regions which increased considerably towards the end of 1949. Nevertheless, export contracts which recovered in November again declined in December and later continued inactive.

Import Contracts: Reflecting the government policy, import contracts increased sharply from 62,597,788 dollars in November to 123,520,527 dollars in December, through imports from non-dollar areas of foodstuffs hitherto purchased from the United States as well as increased imports of minerals and crude rubber. Thus, imports from agreement areas such as Australia, India, Argentina, etc. increased sharply, whilst the relative importance of the United States declined from 52 per cent in October to 18 per cent in December.

Export Contracts: With the disappearance of misgivings of a yen devaluation, export contracts recovered from the extremely low level immedi-

ately after the the pound devaluation, reaching 60,503,000 dollars in November, when large quantities of cotton goods were purchased by Indonesia with ECA funds, but later again slackened. Export contracts concluded in December were only 12,291,000 dollars, although this figure is considerably less than the real monthly volume due to statistical reasons. Although some recovery was witnessed in January, the total for that month was 30,126,000 dollars.

In comparison with November, chemicals advanced markedly, metals, machinery, agricultural and aquatic products and miscellaneous goods showed little change, whilst textile goods declined sharply. By countries, Australia and Hongkong advanced sharply, but most other countries witnessed a decline. This despite various export promotion measures taken by the government, especially increased import contracts, is attributable to the dollar shortage in non-dollar area, which strengthened restrictions upon imports from dollar areas. For example, India has failed to authorize imports from Japan despite the conclusion of a trade agreement in November. Among dollar areas, South American countries such as Argentine and Brazil have also strengthened import restrictions in spite of the conclusion of trade agreements with Japan.

Export Contracts by Commodities

	(in 1000 dollars)			
	Oct. 1949	Nov. 1949	Dec. 1949	Jan. 1950
Textiles	14,169	37,515	1,275	9,273
Metals & machinery	7,163	11,663	5,475	11,831
Chemical	115	411	143	1,246
Agricultural & aquatic goods	2,763	3,613	3,263	3,243
Miscellaneous goods	5,267	7,301	2,186	4,471
Total	29,477	60,503	12,291	30,126
		1949	1950	
		Nov.	Dec.	Jan.
Dollar area				
United States	13,582	3,732	9,953	
Philippines	6,394	642	2,353	
Canada	1,269	87	530	
Korea	1,946	1,502	859	
China	669	301	1,146	
Total (incl. others) ..	35,569	7,575	19,625	
Sterling area				
Pakistan	7,403	366	1,096	
Australia	920	1,497	2,032	
India	326	82	558	
Iran	389	462	275	
South Africa	103	6	5	
Great Britain	4,701	90	409	
Total (incl. others) ..	17,014	3,302	5,719	
Other area				
Argentine	699	—	503	
French Indo-China ..	192	2	38	
Hongkong	123	—	1,486	
France	1,638	18	849	
Thailand	4,081	292	1,543	
Total (incl. others) ..	13,181	1,415	4,782	

Export contracts concluded with sterling areas after the conclusion of a trade agreement amounted to only 23 million pounds during the period from November to December last year, whilst import contracts reached 38 million pounds, resulting in an import excess of 15 million pounds. Owing to a shortage of pound sterling as well as an advance in prices in the sterling areas, import from these countries have become difficult. Under these circumstances, the government policy to increase imports in order to promote exports is anticipated to fail.

Current Industrial Situation in Japan

1. Agriculture

The sharpest reflection of the effects of labor shortage and diminished output of fertilizers in Japan as a result of the war is found in the poor rice crop in 1945, when the Pacific War came to a close. As compared with the prewar yearly average amounting to some 60,000,000 koku, the crop in that year was an unprecedented low, accounting for only 66 per cent of the average. To make the matter worse, the food import was less in quantity than at present. The result was that the controlling measures, though in force as ever, were powerless before the law of supply and demand in this food crisis, and the black-market gains of the agriculture communities ran into exorbitant amounts, bringing boom to them. However, owing to increases in the rural population and in the production of fertilizers, the amount of rice crop rose year after year and in 1948 it even exceeded the prewar output. On the other hand, the food import was also ever on the increase, i.e. it attained 1,890,000 tons in 1948 and 2,720,000 tons in 1949; and for the current year the quantity of rice and wheat alone is expected to reach 3,400,000 tons and the total including soy-beans and the like would amount to 3,750,000 tons. Thus the food situation has been eased, as may be clearly seen in the declining trend of the Engel index. While still far from the 1931-34 average which stood at 34.2 per cent, the rate came down from the 65 per cent of 1947 to 64 per cent in 1948, 63 per cent in the first half of 1949, and precipitously to 60 per cent after September of the same year. The restoration of balance between supply and demand gradually accentuated the "scissor-form" price difference between the agricultural products and the supplies purchased by

agricultural families, whether in official or black-market values, and tended to bring pressure to bear on the economy of farming communities. As a result the price-fixing policy in regard to rice which in the past had the consumer's interests mainly in view is now undergoing a change toward protection of the farmer's economy. In the world-wide tendency of over-production of food, the question of agricultural crisis in Japan is now being brought into focus, which demands a solution of sharply contradictory issues. For establishing the nation's economy on a self-supporting basis, increased export is essential. For such purposes, the reduction in the manufacturing cost of export is necessary; in particular the cost of labor which represents a major portion of the price will have to be cut down. Therefore, the cheaper the price of food which constitutes a large proportion of the living cost, so much the better. However, as the rural population accounts for as much as half of the nation's total population, the impoverished state of rural communities is likely to give rise to social unrest to a large extent. With the limited arable area, the maximum production cannot exceed 88,000,000 koku in terms of rice, even counting other cereals and potatoes as main food-stuff. The production falls short of the nation's annual consumption of 99,500,000 koku, by about 11,500,000 koku or 2,000,000 tons in rice, the import of which is absolutely indispensable.

The fall in the price of agricultural products on a world-wide scale is certainly beneficial to the consumer and is desirable for the lowering of cost in manufacturing industry. But it has a direct bearing upon how the agricultural problems are to be solved.

2. Future of Iron and Steel Manufacture

In the past the iron and steel manufacture was supported by the supply of cheap raw materials from the East Asiatic areas and the nation's own low-cost shipping services. In the postwar period, however, those advantages are no longer there. On the contrary, the industry is obliged to purchase raw materials on disadvantageous terms, which are seldom met with throughout the world. But as the iron and steel products are in keen demand, efforts are being made to step up the production under a priority schedule and a price compensation system.

The output of ordinary rolled steel was only 326,000 tons in the fiscal year 1946. It registered a slightly less than four-fold increase to 1,229,000 tons in the fiscal 1948, and to the estimated 2,200,000 tons in the fiscal 1949. The production goal for the fiscal year 1950 in the meantime is set at 2,500,000 tons. Whether this goal can be achieved depends on the undermentioned factors.

(1) The price compensation for iron and steel in the fiscal year 1949 amounted to some ¥74,800,000,000. But a reduction to ¥29,500,000,000 is

Reflecting the dollar shortage in overseas markets, proposals for barter trade came to the fore, the principal commodities to be exchanged being as follows: oil and fats and coal (Communist China), black lead and Kaolin (Korea), sugar, Manila hemp and iron ore (Philippines), wheat, hides and wool (South America), against cotton goods, cement, chemicals, steel products, machinery, etc.

The Japanese government has thereafter decided on fundamental principles for the authorization of barter trade, the main points of which are as follow: (1) Barter trade will not be permitted with sterling areas and open account areas; (2) It will be authorized in case of trade with Communist China, Formosa, Sweden, Egypt, Canada, etc., with which trade agreement have not yet been concluded, as well as with Central and South America, Korea, etc., trade agreements with which have not worked smoothly; (3) Authorization will be given for commodities difficult to be exported.

expected for the ensuing fiscal year. Therefore, after July this year the consumer's price will be marked up by 30 per cent for pig iron, and 40 to 50 per cent for rolled steel. While the producer's cost price in Japan is far above that in the United States, the consumer's price is maintained at a low level through the compensation system.

Even with the consumer's price kept at such a low level, complaints are heard from such large consumers as shipbuilders and machine-manufacturers about the high prices of iron and steel products. It is questionable if the present volume of demand could be maintained after July when a rise of 30 to 50 per cent will be introduced.

(2) Of the domestic demands, the only branch in which an increase is expected is the petroleum industry. In shipbuilding, machine manufacture and coal-mining some decrease in demands is anticipated. Of course in special lines such as galvanized steel sheet, a sizable amount of demand will be maintained. But as a whole much may not be expected, unless the stringent financial situation since the end of last year is straightened out. Next in regard to export, the overseas demand during the current fiscal year has been fairly brisk. But the items demanded are confined to unfinished materials, and the market for finished goods has been inactive. Besides, difficulties are anticipated in making sales in the future because of the high domestic price level.

(3) About production cost. As mentioned before, Japan imported in the past almost all materials from abroad (more than 80 per cent of ores; 50 per cent of steel scrap; almost 100 per cent of coking-coal). That basic relationship in respect of sources of supply still remains as it was in the past. If account is taken of the fact that the major portion of the production cost of pig iron is the cost of its raw materials, the importance of reducing the latter cannot be emphasized too much. Reportedly the price of coal delivered at the furnace in the United States is \$6.00 to \$7.00, while the American coal imported into Japan is priced at \$17.00 to \$18.00 and is far above its reported original price. Since the end of last year import of Kailan coal has been started at the price of \$11.00 per ton. But for the present import on a large scale cannot be expected. Domestic coking-coal is priced at \$11.00 or \$14.00. But as its quantity is insufficient, promotion of trade relations with Communist China is desired in order to have the material imported economically and transported in Japanese ships. The price of ore lately imported from Hainan Island was \$15.00. It is reported on the other hand that ores from Malaya and the Philippines may be available in the neighborhood of \$10.00. But until actual purchases are made, nobody can be sure about it. Considering the U.S. domestic price of ore for delivery at the furnace is about \$10.00, it is earnestly hoped that at least the price of ore could be reduced to the U.S.

level. What remains of the steel scrap in Japan mostly consists of burnt galvanized sheets, steel frames of factories destroyed by fire, and the like. As scrap as a marketable commodity is being rapidly exhausted, its replenishment poses a serious question. In short, the described reduction of cost and the consequent development of iron and steel manufacture as one of the key industries would be hardly possible, unless some means are found out to obtain the abovementioned materials in large quantities at economical prices, free from any political entanglements. On the other hand, the industry itself would not hesitate to rationalize the business by means of making improvements in technique and facilities, if practicable. But the prevailing shortage of funds is expected to pose considerable difficulties in making such improvements.

3. Non-ferrous Metals

The following table shows the amounts of non-ferrous metals produced in Japan during last year, in comparison with those of 1943, a peak year.

	1949	1943
Copper . . .	74,037 tons	123,499 tons
Zinc	32,318 tons	293,385 tons
Lead	12,599 tons	30,040 tons

Though on the gradual increase since the termination of the war, the current production still falls far short of the maximum that has been attained in the past. The market prices of non-ferrous metals quoted among wholesale dealers at the end of last year, converted into dollar value, were; electrolytic copper, about 16 cent per lb.; electrolytic zinc, about 11 cent per lb.; and zinc distillate, about 10 cent per lb. After the system to pay price compensation drawing upon the National Treasury was abolished during April to October last year, the price of electrolytic zinc went over the price level in the United States, and that of the other items rose near to it. Export of copper may be promising, as long as the domestic price is lower than the price in the United States. The amount exported during the period from June last year to January this year totalled 31,000 tons. The main buyers were the E.C.A. countries in Europe and South American countries. The estimated amount of electrolytic copper produced during the fiscal year 1950 is around 80,000 tons, of which, it is considered, only 43,000 tons is assigned to domestic consumption. Unless, therefore, the remainder or almost half the total production is exported, it will have to be held in dead stock or the output will have to be reduced that much. The business circles pin their hope on the prospective export to a large extent. In regard to zinc, some 40 per cent of its domestic consumption is used for manufacturing galvanized steel sheet. As the galvanized sheet is mostly intended for export, the production of zinc indirectly contribute to the promotion of ex-

port trade. However, for the present the business is in a dazed state owing to the reluctance of the Philippine importers to take delivery of galvanized sheet. Since September last year 14,000 tons of lead has been exported, of which 80 per cent was old lead. The export of new lead in any appreciable volume may not be within the realm of possibilities in view of the current domestic price level, unless a sharp rise in the overseas price takes place or a through-going rationalization of business is introduced. There lies the trouble in regard to this line of business.

4. Shipbuilding

The shipbuilding industry which had long been in a depressed state since the war's ending appeared to have taken a sudden turn for the better through the 5th building program of the government to construct 300,000 tons gross of new ships. However, a rapid succession of changes in the surrounding conditions since then—procrastinated peace talks, gestures of foreign shipping companies, problems involving chartering of foreign tonnage, release of shipping business to private operation—are now breeding pessimism as to the future of shipping and also of shipbuilding.

While almost all the works under the 5th program as well as the other reconstructing works are expected to come to an end within the current year the shipowners are becoming more or less hesitant in regard to new building in consideration of the latest circumstances. Neither, in reference to the expected amount of fund supply, can any hope be entertained for a substantial business under the 6th program. As the shipping market of the world is already tending toward over-tonnage, the present high cost of building may preclude the chances of obtaining overseas contracts for export. Therefore, if the present state of affairs is allowed to continue, the shipbuilding business which is just beginning to recover after long years, cannot but be regarded as facing numerous difficulties in the future. In consideration of the amount of Counterpart Fund available, new building contracts, in so far as they are foreseen at present, will amount only to some 150,000 tons gross under the 6th program of the government. Shipowners themselves are not in a position to raise fund, as may be concluded from the difficulties encountered in inviting subscription for increased capital stock in general. It is reported that of the forty-two owners who placed orders under the 5th program, fourteen owners have no more ability to offer security.

On account of diminished cargo movement and over-supply of tonnage, the freight market is in a low tone, with the current quotations standing at 30 to 50 per cent below the level maintained some time ago. It has already been decided to transfer the operation of shipping from the Civilian Merchant Marine Committee to private com-

panies. While the transfer itself was originally welcomed by shipping companies, they are not sure at the moment how much cargoes they would get and are so far unable to expect a paying business, since the domestic shipping market is over-tonnaged by some 600,000 tons gross and the outlook on the overseas trade is anything but bright.

In regard to ships to be exported, the high building cost is a fatal stumbling block. Worse still, the prospective abolition of the price compensation for iron and steel in July next will drive their prices upward, with the result that the current price of ¥72,000 per ton gross is expected to exceed ¥90,000. During the period that followed the war's end, Europeans were so eager to obtain new tonnage that they placed orders even with shipyards in Japan, far away from their home countries. But for the present the demand for tonnage has abated.

Comparatively speaking, the shipyards in Japan received little damage during the war. As they still retain their prewar capacity almost intact (indicated capacity; 800,000 tons gross; actual capacity; 400,000 tons gross), it is essential for them to receive orders not only from Japanese companies but also from foreign purchasers. Therefore, all the shipbuilders are now confronted with the necessity to reduce their cost and to double their efforts in making improvements by adopting welding technique or otherwise.

To sum up, the real recovery of shipbuilding business can hardly be expected until such time as a peace treaty is concluded, the participation of Japanese shipping in international trade is recognized and the shipping business becomes prosperous again.

5. Automobile Industry

Workers engaged in the automobile industry of Japan exceed 100,000 and its main plants amount to 550 in number at present. The industry's annual output is 20 and several more billion yen. The production rate of the industry indeed reached 70% of the pre-war level, i.e. of circa 1935, as early as only three years after the termination of the war.

The industry for a time suffered from the shortage of iron, steel and rubber tyres, but its production recovered more or less smoothly as these bottle-necks in the materials were solved. The rate of the recovery is shown below:

Production of ordinary vehicles (unit).	
1945	6,723
1946	14,154
1947	9,934
1948	18,511
1949 (April-December)	13,511

However, because the deflation policy taken according to the Dodge programs began to be felt keenly since about July, 1949, and because the replacement of old cars, though exceedingly expensive to be maintained, began to be postponed owing to the tightness of money, the demand for the

newly manufactured motor cars decreased and, as a result, the number of new vehicles to be stocked increased. Thus every motor-car manufacturing company has been forced to resort to production control. Therefore, the hardest problem which faces the industry is the decrease of effective demand for the new vehicles.

The automobile industry suffered a quite limited amount of war damage and preserves almost intact the equipments of the pre-war times. And this means that the present rate of output of the industry is clearly too small for the scale of its plants.

On top of the fact that the condition of the home market is not prosperous, the present situation of motor car export is not promising too. Although the number of vehicles exported is increasing steadily from only one in 1947 to 22 in 1948 and 181 in the first half of 1949, too much cannot be expected in their export unless export to the market of China becomes possible to the fullest extent without any hindrance. It is true that there have been some quotations from South America and South Sea areas, but they cannot become important markets from the view-point of quantity.

The next big problem facing the Japanese automobile industry is the import of foreign manufactured vehicles. It goes without saying that the Japanese automobile industry will receive a severe blow by the import of foreign motor cars. The expected sale price of an American car of Ford and Chevrolet class after it is imported into Japan, is between 2,800 and 3,000 dollars, i.e. 1,200 thousand yen. If the sale price of a riding car of Datsun or Toyopet class small cars can be reduced to 400 thousand yen through mass production, this reduced price will be only one third of the sale price of an imported American car and enable the Japanese small cars to compete with the American big cars with a wide margin. However, the sale price of such a good British small car as Austin as delivered in Tokyo is only 460 thousand yen. The Japanese midget car cannot compete with a reliable foreign manufactured car like Austin unless its sale price is reduced below 400 thousand yen. The Japanese automobile industry is expected to realize this reduction eventually.

As for the standard trucks, the Japanese trucks can compete with any foreign made standard ones in price at present, and the imports of American trucks seem not to be contemplated this year. However, the Japanese automobile industry ought to make special studies how to improve the quality and how to reduce the production cost of the Japanese trucks in preparation for the future competition with the foreign trucks. Especially researches should be continued in the future for the improvement of diesel engine motor cars, too, because the increased production of trucks with diesel engines is highly desirable for Japan being very poor in fuel resources.

The fundamental problem for all types of motor vehicles, however, is whether or not the demand for new motor cars can be created to such an extent as the reduction of production cost becomes possible through mass production.

6. Machine Industry

Government consumption and export are what had formerly boosted the machine industry in Japan. The increase of comparative importance of the machine industry in all Japanese industries can be seen from the fact that the number of machine factories was increased from 9% in 1930 to 19.8% in 1942. The number of workers engaging in the machine industry was increased from 10% to 42.9% and the total value of the products from 10.7% to 30.6% in the same period. In 1945, the total value of machine industry production is assumed to have reached 50% of all industrial production of Japan.

What have comprised the greater part of the machine industry are shipbuilding, manufacturing of electrical machine and appliance, electric wire, cable, automobile, spinning and weaving machine, internal combustion engine, rolling-stock, communication apparatus, etc. As the production of these was fostered and developed speedily at such pressing demands as requirements of national defense or of export, the technique of western countries had to be imported and adopted as it was. Improvement in the techniques of machine tool manufacturing as well as of casting and forging which constitute the basis of the machine industry, however, had long been neglected and the machine industry when considered as a whole lacked balance to a deplorable extent. Particularly during the Second World War such techniques were left far behind the advancement of technical level in the rest of the world and the Japanese technique is, perhaps with few exceptions, at least 10 years, in some cases 20 years, behind the United States in this regard.

The machine industry which lost the huge demand of armament after the war has now a great surplus capacity in the facilities, even if all the losses through war damage are taken into consideration. The increased production of coal, development of electric power resources, revival of textile production for export purpose and increased production of fertilizer, all of which were given special stress after the war, gave rise to the very active production of machines needed for this conversion of war time economy to peace time economy, and big enterprises which were favored by the sudden rush of orders enjoyed a short-lived prosperity for a while. The satisfaction to a certain degree of these domestic demands, however, coupled with the inactivity in export trade and the decrease in the effective demand due to deflationary tendency, worked to bring an end to this temporary prosperity.

In parallel with the production of these capital goods, the production of light machines and appliances to meet the demand for consumers' goods which had been suppressed during the war also experienced a temporary flourish. The enterprises engaged in the production of these consumers' goods were mostly those of 'middle' or small scale. The predominance of these smaller entrepreneurs is a characteristic feature in the structure of Japanese machine industry. These middle and small-scale enterprises had borne the task of production of bicycles, clocks, electric bulbs etc. for export in pre-war days, and some of these smaller enterprises were engaged in production as subcontracting factories of big enterprises. During war time these smaller enterprises were regimented to form a composite production system under and around the big enterprises, but when the control was lifted after the war, they started the production of daily sundry goods which were badly wanted by the general public. But now that the hectic demands after the war have been satisfied and the big enterprises have recovered themselves from staggering, they are in a predicament mainly due to the universal surplus of facilities.

The fundamental idea of the industrial rehabilitation of Japan after the war lies in the conversion of main export items from textile goods before the war to such capital goods as machinery and plant equipment, by utilizing the facilities of the machine industry which was expanded enormously during the war time. However, the plan did not work out as hoped for. The value of exported machines in 1937 was only 7% of the total value of export, while it is still only about 10% after the war.

What are desired for the Japanese machine industry to recover itself from the present difficulties may be summed up as follows:

1. The cheap-priced coking coal and iron ore of Asiatic countries be imported so that the machine industry may be released from the burden of the high cost of such basic materials as coal, iron and steel.
2. Resumption of trade with China which was the greatest export market for machine products before the war.
3. Monetary and technical assistance for the efficient utilization of surplus facilities.
4. Utilization of the machines and facilities of Japanese factories for the industrialization of Asiatic countries, since they are on the pertinent level for the purpose.

7. Textiles

The recovery of the textile industry falls by far behind the other industries of Japan. The production index of the textile industry stood at 25.7 per cent as of September, 1949, whereas the composite industrial production index was estimated at 71.8 per cent,

with the average production index of 1935-37 taken as 100. But the production shows a tendency to increase and there is a bright prospect regarding the improvement of the domestic demand situation. Textiles are an important factor in the export of Japan, totalling one half of the aggregated export. Cotton-yarns and fabrics, silk-yarns and fabrics, and rayon and staple fibres are the three chief items of exported textiles, representing respectively 35%, 7.8% and 6.6% of the total export of Japan for the January-November period of 1949.

Last year, the export of cotton yarns and fabrics attained the post-war peak; the annual amount of export of cotton fabrics totalled 751 millions sq. yds., and that of cotton yarns 23 millions lbs. Many handicaps had to be overcome in order to attain this post-war peak of the export, and there will be many difficulties to be solved in the future too. The number of spindles which Japan is permitted to have was set at four millions and almost all these spindles are now in operation, but this number represents only one-third of the number of spindles Japan had in the prewar days. It must be remembered that the attempts to improve efficiency and quality are handicapped by the fact that all of the spinning machines are remodelled ones of those which were installed a long time ago and became obsolescent. In view of the tendency that the recipient nations before the war are now turning into supplying nations, Japan will find it the more difficult to compete with other nations in cost and quality. To these industrial handicaps must be added the handicap due to the fact that Japan is in a difficult position for grasping clearly the tendency of the overseas demand. The achievement in the increase of exported textiles which the textile industry could accomplish last year was the result of the industry's hardest effort to overcome these industrial handicaps by the effective utilization of obsolescent production equipments and by the unique technique of mixing by which it produced good quality textiles using raw cotton of comparatively inferior quality.

As for raw silk, a completely different situation is prevailing. The decline of its price this year caused by the abolishment of the dollar floor price system has brought about a serious crisis for raw silk merchants, who, on the other hand, have to face the high production cost of silk. The success of a large-scale production of nylon and other synthetic fibres in America, which, before the war, was the main market for the Japanese raw silk as well as the violent and intermittent fluctuation of the market price of silk, are partly accountable for this crisis. But, fundamentally speaking, this comes chiefly from the fact that the economic and financial position of the Japanese silk-reeling industrialists and wholesale dealers is weak and too susceptible to external influences. It is expected, however, that the unique quality of silk will be recognized again

before long and a new market will be developed and some measures are under contemplation for this.

As for rayon and staple fibres, the 1949 production showed an increase of 87 per cent respectively over the previous year. But it represents only 23 per cent of the 1938 production peak. Seen in terms of export, their export to India has been very brisk until March of 1949 and the volume was the highest only next to in 1938. But, since the O.G.L. (Open General License) was suspended by the Government of India, it became very dull, causing a huge accumulation of stocks. Fortunately, owing to the existence and continuation of the strong domestic demand, the aggravation of the situation was saved. However, the restoration of the O.G.L. by the Indian Government is desired from the view-point of the expansion of export which is a prerequisite for the rehabilitation of Japanese economy.

The per capita domestic consumption of all these textiles, which are important export commodities, was estimated at 2 lbs for the year of 1944. In 1949 it was raised to 5 lbs., but it is still far below 17 lbs., which was the 1937 per capita consumption peak. (These figures include those assigned to the industrial purposes as well as the clothing of the people).

8. Shipping

Japanese shipping had been playing an important role in the Japanese economy as an "invisible export industry" before the war. The net income from the shipping industry averaged 119 million yen a year against the average adverse balance of trade of 70 million yen between 1930 and 1934, and contributed, as the third largest foreign exchange income earning industry coming after the raw silk and the cotton yarn and textile which were the two most important export commodities of Japan, to the improvement of the balance of international payments of Japan. The role of marine transportation was of the highest importance, in making the Japanese economy stand on its own feet. However, the shipping industry suffered exceedingly severe damage in the Pacific War. The gross tonnage of the Japanese vessels at the time of the termination of the war was only 1.3 millions, about one-fourth of the maximum holding reached during the war, and, moreover, 70% of this diminished holding consisted of poor vessels that had no international classification. In so far as the Japanese mercantile marine remains to be so weak as stated above, it is out of the question that the Japanese merchant has any chance to accomplish the task assigned to it for the improvement of the balance of international payments of Japan, even when the international navigation is thrown open to it. With this consideration, the construction of ships with the international classification has been permitted since 1949 and the construction permit of 300 thousand gross tons was given for the same

Future of Japanese Trade Pacts

The majority of Japan's trade agreements concluded with foreign countries mature in the next two or three months. Starting May 15 a trade conference is expected to be held in Tokyo for renewal of the Anglo-Japanese trade pact.

Recollecting the inconveniences caused by the protraction of the last trade negotiations which had further served to accentuate export inactivity, Japanese business quarters are hoping that the Government will see to it that such a situation will not be repeated. The Government, in view of the unsatisfactory operation of the existing Anglo-Japanese trade agreement, is understood to be studying ways to bring about its smooth working.

A brief review of the features of the agreements now in force and the future plans are outlined as follows:

(1) Features of agreements:

As of April 1, trade agreements, by which are meant the combination of a commercial and payment arrangements, number 20 in all. Moreover, the commercial agreement with Hongkong which is accompanied by a payment arrangement, provides for items and amounts of import and export as well as the time limit for delivery, while agreements with the Latin American countries stipulate only the delivery period. Whereas the payment arrangements concluded mostly lay down terms of settlement pending the conclusion of a peace treaty, arrangement with Belgium and the Latin American countries set the payment period at one year.

year. A permit for the construction of another 300 thousand gross tons is desired for this year. However, even after the completion of the construction of all these tons, the merchant marine holding of Japan will be only 2 million gross tons, and, even then, the vessels that can be used for ocean-going are only 60% of it. Therefore, the Japanese shipping can only carry one-third of the annual volume of foreign trade of Japan which is estimated at 30 million tons when the Japanese economy becomes stabilized.

Nevertheless, it is most satisfactory that the Japanese shipping industry is moving towards the direction of economizing and earning foreign exchange, however small the amount may be, by carrying export and import goods. However, it is anticipated that the Japanese shipping industry may be placed in the most difficult position when it enters into competition with foreign ships in the future. This anticipation is based upon the following facts. In the first place, the Japanese shipping agents who lost their accumulated capitals on account of the war have to finance the new construction by borrowing, paying interest. Secondly, the construction expenses in

Most existing trade agreements which were concluded afresh or otherwise renewed, are due for renewal in May and June, with the exceptions of those with Thailand, Burma and Sweden. The agreements with Holland, Indonesia and France which are already overdue, have been extended until the conclusion of a new agreement. The agreement with Argentine which expires at the end of June, has also been made valid up to this year-end.

The countries with whom new trade agreements are currently under negotiation include the Philippines, France, Holland and Indonesia, and with the exception of the United States, among the non-agreement countries which have close trade relations with Japan are China, Canada, Egypt, Italy, Spain, Portugal, Norway and Denmark.

Broken down according to countries, follows an examination how each agreement influenced Japan's foreign trade.

Sterling area:

Because of Japan's favorable trade balance with the sterling area under the previous agreement, which stood at about £45,500 thousands and imports at £55,000 thousands. Though exact figures regarding recent developments are not yet available, as of the last year, Japan's exports amounted to £22,417 thousands and imports to £38,833 thousands, showing an unfavorable balance of some £15,000 thousands. This surplus of import has tended to dwindle slightly due to recently eased restrictions by India, Pakistan and Malaya, on imports of Japanese goods, but Japan's dire short-

Japan are higher by about 20 to 30%, when compared with Great Britain after the devaluation of sterling. Thirdly, no Governmental subsidy is given to the Japanese shipping industry. Fourthly, the burden of depreciation expenses, interest on loans and others is heavier upon the Japanese shipping industry than any other country. Fifthly and as the result of these facts, the shipbuilding and operating costs are bound to be high.

A blow was served to the Japanese shipping by the winding-up of the Civilian Merchant Marine Committee on April 1, 1950, which had been conducting a unitary operation of all Japanese ships of 800 tons and above under the financial aid of the Government. The difficulty due to the abolishment of the Committee will be solved after some length of time through the efforts of civilian shipping agents which replace the bureaucratic red-tape of the Committee. The greatest and last critical problem, however, of the Japanese shipping industry is whether the Japanese maritime transportation will be permitted into the international shipping circles on ordinary conditions or not.

age of sterling still continues to necessitate withholding of purchases from the sterling area.

The main reasons for such excess of imports and the pound shortage may be accounted for by the fact that Japan, on the strength of Dr. William Logan's idea, has imported too much from the sterling area in defiance of the marked inactivity of Japanese exports to the same area, which was due to high prices of Japanese products as a result of the pound devaluation and the United Kingdom's dollar shortage, restriction on import of consumers' goods, and accentuated foreign exchange control necessary for its economic industrialization.

Korea:

Trade with Korea conducted under the existing agreement which is shortly due for renewal, has recorded only \$17,890 thousands for export as against the expected \$51,688 thousands mark and \$6,200 thousands for import as against the expected \$30,294 thousands mark.

This, not to mention its dollar shortage, was because Korea has very few commodities other than rice available for export. It is said that even with rice, exporting facilities have been largely crippled by imperfect framework for rice collection, as well as by domestic inflation.

However, a new agreement will be worked out on a dollar open account basis so as to render the economizing of dollar fund possible.

It is considered hardly possible to hope for a balanced trade between such countries as Japan and Korea whose special products are limited to a narrow scope and whose industrial capacities are beyond comparison. For Korea's unfavorable balance of trade the United States ECA funds are duly made available.

West Germany:

The agreement with this country expires at the end of July this year. Up to March-end, Japan's exports totalled \$289 thousands and imports \$2,362 thousands against the proposed aggregate of \$12,500 thousands for import and export, an import excess on our part of some \$2,000 thousands.

The above are the figures kept in open account of the settlement bank, and since the outstanding figures are quoted as amounting to about \$2,400 thousands, the total of import surplus comes to \$4,400 thousands, or well over the swing amount of \$3,000 thousands.

The reason for such an import excess may be assigned to Japan's over-purchase of German products, notably potassium, under the Logan import program, while very few Japanese commodities meet with German requirements.

Thus, the situation presents a big contrast to the case of Korea.

French Union:

The present agreement which expired at the end of last February remains effective until a new pact takes its place.

As of February-end this year Japan's trade with the French Union showed exports valued at \$8,740 thousands and imports at \$13,090 thousands, showing an unfavorable balance of some \$3,090 thousands. The dullness in export of raw silk was responsible for this situation.

Holland:

Just as in the case of the French Union, the agreement which expired at the end of September last, has been extended until such a time when a new pact will be concluded.

To date, exports to Holland have totalled \$3,050 thousands and imports \$1,750 thousands, showing a balance of some \$1,300 thousands in our favor.

Indonesia:

The already-expired trade pact has been made valid until it is replaced by a new agreement.

Trade with Indonesia amounted to \$47,000 thousands in export as against the expected \$63,100 thousands and \$14,500 thousands in import as against the expected \$23,000 thousands, displaying a fairly unfavorable balance for Indonesia which will be covered by the ECA funds as in the case of Korea.

Belgium:

The agreement is due at the end of May this year, under which effective amounts and values of goods for import are not particularly laid down.

The March-end trade record shows exports totaling \$6,715 thousands and imports \$4,169 thousands, or an export excess of about \$1,500 thousands in Japan's favor.

Sweden:

The existing pact which was concluded on April 1, this year provides for an open account settlement.

The figures of trade carried out under the previous agreement as of the end of last March were \$7,030 thousands for export and \$9,530 thousands for import, resulting in Japan's favorable balance of approximately \$2,500 thousands.

This disparity of trade, however, is expected to become levelled off with the establishment of letters of credit necessary for trade between the two countries under a barter system.

Finland:

With this country, an open account with a swing limit up to \$400 thousands has been arranged for settlement.

As of the end of last March exports amounted to \$1,520 thousands and imports to \$1,160 thousands, a balance of \$360 thousands in Japan's favor approaching close to the fixed swing amount.

Argentina:

The agreement with Argentina which falls due on June 22 has been extended up to the end of this year.

Payments are to be made through an open account with a swing limit of \$3,000 thousands which recently has been raised to \$10,000 thousands.

So far, the volume of trade conducted on a letter of credit basis totalled \$21,000 thousands in import and \$5,000

The Japanese Bicycle Industry

I. Post-War Conditions and Production.

Japan's bicycle manufacturing industry, the activities of which had already been reduced during the war due to enterprise readjustment and material shortage, is said to have lost by war disaster nearly 60 per cent of its production capacity. After the war, many of the armament factories were converted, in some cases reconverted, to the production of bicycles. Out of 463 bicycle factories as at the end of 1948, those converted and those newly starting in the manufacture numbered 200 plants (43%). Both the converted and reconverted factories can be roughly divided into four categories according to their type of rehabilitation: (1) Big enterprises originally engaged in this

thousands in export, showing a large surplus in our export balance.

True, as it may be with other Latin American countries, such tendency in Japan's trade, particularly with Argentina, lies in the fact that this part of the world which assumes a large export market for Western products seems to be not so particular in seeking Japanese merchandise and its unfavorable trade balances with European countries as well as the United States have led to import restriction over Japanese commodities.

Brazil:

The agreement under which an open account has been established for payment, expires next July 1. This pact provides for a trade pattern whereby Brazil in the first place will purchase commodities from Japan and Japan is to follow its lead in return.

At present imports from Brazil amount to not more than the equivalent of something around \$800 thousands prepared for the recently established letter of credit.

An export contract involving \$3,900 thousands for 9 oil tankers has recently been concluded with this country.

(2) Measures to improve trade:

As is clear from the foregoing, the results obtained from the agreements entered have proved most unsatisfactory to Japanese foreign trade.

This seems to be due largely to the fact that every country which is made liable for settlement of its trade balance through the medium of the dollar, subsequent to the conclusion of a trade arrangement, is almost invariably bound further to strengthen its import restriction and exchange control to check dollar spending as far as possible.

For this reason, there is provided a swing system whereby an agreement country, in the case its credit balance exceeds a fixed amount, can claim cash payment from a debtor country so as to put the agreement on a smooth working basis. On the other hand, frequent interim trade talks are being held between the countries concerned for information on, and review into the true state of imports and exports conducted under an agreement.

Since all this, however, has not proved adequate for meeting the emphasized import restrictions and exchange controls caused by deep dollar shortage in other countries, the points which the International Trade and Industry Ministry now has under

consideration are: (1) That a multi-lateral payment system as incorporated in the Japan-German trade pact should be introduced into agreements with other countries, making the transfer of debts and credits to a third country possible. (2) Where a trade talk is undertaken only the SCAP authorities are in charge of negotiations at present, while the Japanese Government officials are merely present as observers. To work out an agreement according to actual circumstances, their participation in the discussion hereafter should be taken into consideration as is the case in West Germany. (3) The provisions of an agreement should be made as concrete as possible, and (4) The establishment of government trade agents or representatives in agreement countries will be highly necessary in order to maintain close contact with the country concerned for satisfactory performance of an agreement.

On the other hand, the main points which trading circles are hoping for as the only measures which will improve the present inactive trade are: (1) While negotiating a new agreement adequate precaution should be taken against the creation of a possible vacuum period wherein trade may be subjected to temporary suspension, as was experienced last year with the Anglo-Japanese pact, (2) The details underlying an agreement are withheld from the public, but at least its relevant values and amounts involved therein should be released for information and guidance to help transactions, (3) The existing agreements which give much more weight to equalization of imports and exports than to increase in transaction, should be reformed to be effective for a longer period wherein the disparity between import and export values may come to balance, and (4) Permission should be granted for exchange of currencies so as to mitigate the inconvenience arising from the present payment formula.

However, there is little likelihood that the current world-wide tendency towards more stiffened import restrictions and exchange controls which have become the great obstacle to smooth working of the agreements, will altogether disappear, even if the above measures are put into operation.

It is, therefore, considered that a satisfactory operation of the agreements depends only on the sincerity and eagerness on the part of the countries which are parties to the agreement.

line of business such as Miyata Works (Tokyo), Dai-Nihon Machinery (Osaka), Toa Bicycle (Osaka) and Okamoto Engineering (Nagoya), etc.; (2) Enterprises converted from aircraft plants of such companies as Japan Metal Industries, Kayaba Industrial and Mitsubishi Heavy Industries, etc.; (3) Former exporters and commission merchants as Ishimaru Co., etc.; (4) Medium and small enterprises saved from war damages.

Of these four groups, the predominant position is occupied by the big enterprises from the beginning. With their long experience and special techniques, their products are excellent, the output of the said four representative firms in 1947 accounting for about 60 per cent of the total production. The export business is also monopolized by these four companies.

Those re-commencing production soonest after the war were medium and small scale enterprises and most of them having been subordinate to big commission merchants in the pre-war time, they could again commence production immediately after the termination of hostilities with their facilities and materials in stock or obtained from black market sources, and made large profits because of the post-war extreme shortage and the spiralling inflation. With the slowing down in the tempo of inflation, these smaller enterprises were adversely affected. Faced with a shortage of materials and funds, they even began to incline toward dependence upon the larger enterprises or commission merchants. In the meantime, some exporters or commission merchants tended to expand their control over these medium and small enterprises, through the supply of funds and materials, the tendency becoming further noticeable after the putting into operation of the concentrated production system by the enforcement of the Nine Point Economic Stabilization Program.

Enterprises converted from aircraft plants being still lacking in experience and techniques, their production is not yet normal. Even while the reconverted big enterprises are more or less in subcontract relations with the medium and small enterprises, some of the converted enterprises are streamlining, their production system ranging from the self-supply of raw materials to the production of complete bicycles, which can be regarded as one of the new post-war characteristics of this industry. Neither is this production system adopted by all of the enterprises converted from munition plants nor has the production system and the technical studies been fully embodied in the products as yet.

Thus the post-war reconstruction of the bicycle industry was started comparatively early. The main reasons for this early rehabilitation may be (1) the sharp reactionary increase in post-war demand after the heavy decrease in wartime stocks owing to the regularization of consumption or decline in production; (2) the mechanical equipment necessary in this branch of

industry being comparatively simple, both conversion and reconversion from armament plant were easy.

The post-war production of bicycles, which stood at only 38,000 (including parts calculated in terms of complete bicycles) in 1945, increased to 460,000 in 1946, 704,000 in 1947, 1,360,000 in 1948, and 2,152,000 in 1949, but when compared with the pre-war production that for 1948 was only 50 per cent compared with 1937 and that for 1949 was about 95 per cent. This advance in production was irregular depending on the availability of various parts. The production increase in such special manufactures as rims, chains, spokes, etc. was not so manifest, but the parts mainly manufactured by the medium and small enterprises, such as pedals, stands, bells, etc. already indicated over-production as early as the end of 1948. The output in 1949 amounted to 2,026,000 bicycles, an increase of 69 per cent compared with that of 1948, due to an elevation in labour productivity, which was especially pronounced in the later months of 1949.

These production figures do not include products manufactured from materials in stocks or purchased on the black market. It was estimated that this black market production in 1949 might have attained twice that of the registered production. Later, the increase in material allocation and power supply made more production possible, and the tightness in the money market and decline in demand from the general public, compelled a curtailment of black market production. When considered from the equipment capacity of 255,000 bicycles per month and an operation ratio of 60 per cent, the monthly black market production can be regarded as around 50,000.

II. Number of Factories and Scale of Business

Factories which numbered only 119 in 1945, because of the wartime business readjustment and the war damage, increased to 555 with workers numbering 20,019, according to Factory Statistics. The number of factories investigated by the Bicycle Manufacturers' Association was 498 in 1948 and 572 in 1949, and the workers 34,169 and 32,478 persons respectively. The average workers per factory was 68.4 in 1948 and 56.8 in 1949. A conspicuous increase is seen in the post-war statistics of bicycle workers both in the total number and the average per factory, compared with the pre-war level. In 1937, the total number of workers was 17,202 and the average per factory 20.1, according to Factory Statistics. The advance in the average scale of business is due to the fact that small scale factories had been closed during the war and large scale armament factories were converted to this line of industry after the war, which circumstances can be clearly seen from the statistics showing increase and decrease of bicycle factories according to their business scale. According to Industry Statistics, although the greater part of those factories are on a small scale,

employing less than 50 workers, the ratio of which declined from 92.8 per cent in 1937 to 84.3 per cent in 1946, on the contrary, large factories employing more than 200 workers advanced from 1.2 per cent to 3.8 per cent.

The number of factories continued to increase after the termination of hostilities. In 1949, the total number of factories increased from 498 to 572. An increase was registered in factories employing less than 30 workers, whilst those employing more than 30 workers declined. The total number of workers fell by about 7 per cent and workers in factories employing more than 30 workers which occupied a greater part of production showed a decline of about 10 per cent. In spite of a decline in the number of workers, total production increased due to the rationalization of business.

III. Production Conditions

(A) Production facilities. The annual capacity of bicycle production facilities after the war was estimated to be around 3,000,000, judging from the monthly capacity of 254,000 as of October, 1948, whilst actual production proved to be 1,199,000 (39.3%) for 1948 and 2,026,000 (66.4%) for 1949. Taking into consideration wear and tear and the decrease due to wartime readjustment and war disaster, it cannot be said that production equipment has particularly deteriorated. Equipments were supplemented to some extent by the post-war conversion from former munition factories, and there are comparatively many good facilities in both converted and reconverted factories.

(B) Materials. Supplies of basic raw materials such as steel and leather were formerly imported, but from around 1933, home products began to appear which completely replaced the imported materials after the China Incident. The home-made steel tubing and wire, however, being inferior to those imported, they constituted a bottleneck in the production of higher grade bicycles. The material for bicycles must be of special quality, which it was very difficult to obtain during the war and even afterwards. For instance, the allocation ratio of steel material to actual consumption was 18 per cent in 1947 and 42 per cent in 1948, the balance being supplemented by stocks on hand or through black market channels. In addition to the shortage of raw material, the deterioration of quality was a problem in the post-war material supply condition. Many of these allocated raw materials, even if obtained with a great deal of trouble, are unsuitable as to size or quality and require processing before utilization, which naturally brings about a fall in the operation rate and a rise in manufacturing cost. The material shortage which hampers the production of complete cycles is not the matter of steel, but rather of rubber, occasioning a lack of tires and tubes, which situation, however, was somewhat improved in 1949.

(C) **Working force.** The post-war working force in this branch of industry as of October 1948, numbered 37,210, of which 31,555 or 84.8 per cent were operatives. The ratio of female workers to male workers was 26.6 per cent. The comparatively high employment ratio of female workers is mainly due to the post-war increase of larger factories, which requires female employees as miscellaneous workers. The number of female workers is on the decrease compared with the wartime operation. Among these females, there was a comparatively large number of inexperienced workers and the ratio of skilled labour decreased. The greater part of these inexperienced operatives were transferred from armament plants, after a few months' training.

Wages in this industry continued to rise after the war, under the spiralling monetary inflation. By the revision of the price structure in July 1948, labour cost was calculated by the average monthly wage in cash for a regular male worker of ¥4,895, being a little lower than that in the mechanical industry. Although the actual pay according to the company and locality varies, the workers' average monthly pay in 11 companies, investigated in September of the same year by the Bicycle Manufacturers' Association, was ¥6,264. This wage level was later raised by 48 per cent until April 1949, when the advance was stopped, because of the general deflationary tendency attributable to the Dodge plan.

The wage for female workers was about 60 per cent of that for males.

IV. Prices and Cost

The producers' price as newly established in July 1947 of a 26 inch complete bicycle for the home market was ¥3,030, or 3 times higher than the previous year and nearly 150 fold of the pre-war price. This was, of course, the official price of a standard bicycle produced under conditions of a smooth supply of materials, fuels, etc. at official prices; therefore it was, in no way, the actual price under the post-war difficulties. In fact, the total manufacturing cost in 1947 was twice as much as the official price and the black market price soared to over two-fold of the official price, which may be understood from the following figures.

Cost Price per Complete Bicycle at a Factory in December 1947		
	yen	%
Direct manufacturing cost ..	3,359	49.0
Material, fuel	2,055	30.0
Labour	853	12.4
Others	451	6.6
Indirect manufacturing cost ..	2,505	36.5
Materials	510	7.4
Labour	1,707	24.9
Others	289	4.2
Total manufacturing cost	5,864	85.5
General administration and sales expenses	997	14.5
Aggregate total cost	6,861	100.0

In view of this situation, the official price of a complete bicycle was raised in July 1948 to ¥6,300 in one bound to double the former price, and the total price of bicycle parts to ¥5,721. This price revision, however, could not keep pace with the advancing costs,

and the difference became even still wider, with a rapid rise in prices of material and labour, but the official price remains unchanged up to the present. The official price being the producers' price of standard bicycles decided under the precondition of regular distribution of materials, such as tires and tubes, etc., the producers could hardly make both ends meet, during the post-war shortage of materials, even by undertaking the manufacture and sale of other commodities.

Thus the cost of manufacture was always higher than the official price, but in 1949, due to a favourable turn of material and power situation and an advance of operation ratio and production efficiency through business rationalization, the cost was fairly cut down. Since the middle of the year, the market price of parts fell to lower than the official price, and after September it declined to around 85 per cent of the latter.⁽¹⁾ The official price for parts was finally abolished.

Official Prices of Bicycles and Parts (in yen)			
	1943	1947	1948
Complete bicycle (26")			
Producers' price	73.70	3,030	6,300
Wholesale price	76.70	3,212	6,678
Retail price	93.20	3,533	7,945
Producers' price of parts			
Frame	(set) 19.00	737	1,548
Hub	() 4.45	167	376
Chain	(pc.) 2.50	148	289
Spoke	(per set) 1.50	93	130
Rim	(set) 4.45	249	364

The export price of a 28 inch complete bicycle was 19 dollars and that of 26 inch 16 dollars FOB., the margin of profit amounting to about ¥525 at the end of 1948. With the establishment, in April 1949, of a single exchange rate of ¥360 to one dollar, the margin was reduced by 31 per cent. However, the later favourable turn of the material and power situation and the rationalization of business permitted the industry to pay its way and barely survive the heavy blow dealt by the devaluation of the pound sterling in September 1949.

Rationalization involved a cut in personnel and improvement of facilities, methods and technique in the larger scale enterprises. In factories employing over 30 workers, the number of factories and workers was decreased by nearly 10 per cent and the monthly production per capita of workers increased from 3.64 bicycles to 5.46 (about 5%) during one year from October 1948 to October 1949.

V. Home Demand and Export

(A) **Home demand.** The number of bicycles was remarkably low at the end of the war, dwindling from 1 bicycle

to every 7 persons in 1943 to 1 bicycle to every 13 persons in 1945, and the post-war shortage was reported to be 4,550,000 inducing an active demand. Since the middle of 1948, however, despite the increased arrival of products on the market due to the advance in output, indications of stagnancy in the home demand began to appear, reflecting the general monetary stringency, particularly in rural communities. The production of complete bicycles per month in 1949 was 40,000-50,000, up to October, excepting May-June, when a sharp decrease was witnessed owing to the enforced rationalization. Monthly production has gradually increased since October and in December, attained over 70,000. Stocks also increased, but the ratio of stocks to production on the contrary, declined to about 34 per cent during October through December.

(B) **Exports.** The export trade in bicycles and parts, which was inactive after the war on account of the heavy decline in production, the shortage to meet the home demand, and the lack of various export conditions, has shown a sharp expansion since the reopening of private trade in 1947. Exports of complete bicycles totalled 11,318 in 1947, 29,246 in 1948 and 37,706 in 1949, (the ratio of exports to production of bicycles and parts was 3 per cent in 1948). Export value for 1949 amounted to 878 million yen, of which complete bicycles accounted for 31 per cent as against 58 per cent for the year before. However, when compared with the pre-war level (1937) when the export of bicycles and parts reached 37.9 million yen (incl. 14.4 million yen to Korea and Formosa) and accounted for 46 per cent of the production, recent exports (in terms of dollars) corresponds to about one fifth of the pre-war amount. When it is remembered that pre-war exports were mostly parts rather than complete cycles, it is believed that there may be enough room for future expansion through the export of parts.

Before the war, the greater part of Japanese bicycles was exported to Korea, Formosa, Manchuria and China, which amounted to ¥24 million in 1937 or about 65 per cent of total exports; among other territories Indonesia, India, Thailand, Malay, Philippines and Africa, etc. were important. The post-war destinations were Indonesia (accounting for the greater part until 1948), Singapore, Korea, Thailand, Formosa and Central China, etc. During the first half of 1949, about 60 per cent of total bicycle exports was for India and other South-East Asiatic sterling countries, but in the second half, Formosa had come to lead in these destinations; for the whole year of 1949 India and Formosa held the predominant position, followed by Indonesia, Philippines, Thailand, Singapore, etc.

VI. Conclusion

The Japanese bicycle industry made great expansion before the war as an export industry, obtaining a footing in

Note: (1) As against the official price of ¥5,721, the total wholesale price of parts for one bicycle, excluding tires and tubes, was ¥5,247 in July 1949, ¥4,751 in October 1949 and ¥4,785 in January 1950, according to a Survey made by the Bicycle Manufacturers' Association.

HISTORY OF INDONESIA.

Since time immemorial, Indonesia has been the recipient of successive waves of immigration. Being a bridge connecting Asia with the Pacific continent and islands and to a lesser degree with Africa, this is but natural. The Malays themselves, one of the major races inhabiting Indonesia, were one of the great sea-faring races of the world, and in their wanderings they reached the Pacific coast of America, the south of China, Siam, Indochina, Maldivé islands, and the coast of South-east Africa facing Madagascar. Their traces are still to be found in these regions. They conquered and colonized the island-world in the Pacific and Indian Oceans. They intermarried with the aborigines of Melanesia and Polynesia. In short, there has been constant ebb and flow of peoples which resulted in the fusion of races and mixture of blood, so that it is extremely difficult, now to distinguish one race from another. Well-known ethnologists have grouped the Indonesians into the Mongolian race. Logically, the Indonesians should have yellow pigmentation as the Mongols have. But, as a matter of fact, the overwhelming majority of

them are brownish in colour. This may be due to the tropical climate and surroundings.

Generally speaking, the Mongoloid traits are more recognizable among the Indonesians dwelling along the shores. They are marked chiefly by a yellowish tinge, round head, straight hair and narrow eyes. In the interior of the islands the people are marked more by a brown skin, long head and wavy hair.

Indeed, it is true, that the 'discoveries in Java since 1890, by B. Dubois and others, of primitive skeletal remains of *Pithecanthropus Erectus*, *Homo Wadjakenis* etc. of Pleistocene date suggest that members of human and proto-human stocks reached this part of the world perhaps even before implements were invented.' It shows that Indonesia must have been the home of one of the earliest races of mankind and was inhabited at least 400,000 years ago. Of recent date, Koningswal discovered yet another species older than that of *Pithecanthropus Erectus*. This pushes the date further back to about 500,000 years. The eleven skulls discovered in Ngandong in East Java bears Neanderthalman's characteristics. According to the anthropologists, this species must have existed nearly 40,000 years ago. But here our argument ends. We are not in a position to conclude that the present Indonesians are direct descendants of the species mentioned above. Therefore, at the present stage of our knowledge it is difficult to define who are the aborigines of Indonesia. The brothers, P. and F. Sarasin advance a theory that the original population of Indonesia belonged to a race of dark skin and small stature whose descendants are called the Veda people after the well-known Veda tribe of Ceylon, belonging to the same group. It has been also asserted that the brown race of Indonesia has been recognized from early time as a distinct type of mankind. The Malay race has been considered as aborigines of Jambi and Palembang (South East Sumatra). But researches have proved that those we consider as aborigines at first are really people who have come from somewhere else. Von Heine-Geldern, one of the founders of the Indonesian pre-History, and a famous American pre-historian, has pointed out that the scattering areas of the square-axe-culture, called after the implements they brought from their ancestors' homeland, are exactly co-extensive with those of the Indonesian languages and so the widely acceptable theory that neolithic people who brought the square-axe-culture were also at the time the propagators of the Indonesian languages, hence the ancestors of the Indonesian people.

Prof. Kern, the founder of the Indonesian Philology, basing his researches on philological evidences, comes to the conclusion that the ancestors' homeland was situated on sea-shores and they were sea-faring. From his further evidences it is apparent that the homeland was situated in 'Champa and Cambola and adjoining regions along the sea.' This square-axe-culture, ac-

cording to Von Heine-Geldern's conclusion, came somewhere from the region, where the great rivers of East and South-East-Asia have their course. His hypothesis is that the ancestors' country is somewhere in the neighbourhood of where the upper course of the Songkhoei river in Hanoi, the Si-Kiang river of Canton and the Yangtse-kiang converge together. This is identical with Yunan in South China. For the greater part, the square-axe-culture was retraced by the bronze-culture whose ancestors' country was in Tonking, an area which comes within 'adjoining region along the sea.' This would agree with the conclusion of Prof. Kern mentioned above.

The square-axe-culture marches southwards branching off further to the Indian Peninsula and to the Indonesian Archipelago respectively through the Malay Peninsula, taking with it the Indonesian language and culture and northwards to the southern islands of Japan where it intermingled itself with the aborigines.

Thus both philologic and prehistoric evidences supplement and complement each other. And now we can ramify the Indonesian migration into Indonesia in two distinct waves, taking place during Neolithic age and Bronze age respectively. In the Neolithic age, about 3000 B.C., people who spoke the language of the origin of the present Indonesian language came somewhere from the neighbourhood of Yunan (South China) and scattered themselves across to the Indian Peninsula in the south on the one hand specially along the eastern coast where they plied themselves to navigation—and later on proceeded to Indonesia, and to Indonesia on the other via Malay Peninsula. However they did not go further than the eastern Moluccas.

Comparatively speaking, they had already reached a level of high civilization and highly developed ceremonial system. They used beautiful stone implements and stone adzes. They were good carpenters and lived in wooden houses richly decorated and ornamented. They knew the arts of pottery and weaving. The late Prof. Kern's researches revealed that the principal means of existence of the Indonesians at that early state was agriculture of a type highly developed including the cultivation of rice on sawahs (irrigated fields) and ladangs (dry fields). They certainly knew the science of navigation.

The second wave of migration which took place round about 200-200 B.C., traversed the same route and penetrated further east as far as New Guinea and northern Halmahera affixed with other Indonesian isles. They possessed a higher culture and civilization and practised a more highly developed navigation. Belonging to the Bronze age as they were, they used metals such as iron, bronze, copper and gold.

The two cultures, namely, the Neolithic and Bronze cultures, gave rise to the Indonesian civilization that existed before the coming of the Hindu civilization to Indonesia in our era.

world markets, particularly in South-East Asia and Africa, in competition with the highly industrialized countries of the West, because of the depreciated Japanese currency. Although it suffered a severe blow by the war, the industry has been able to revive since 1947. Production in 1949 attained more than 50% of the pre-war peak, while the number of bicycles including parts, or the total production volume in metric tons, is now approaching the pre-war level. Exports, however, are still not much greater than one fifth of the pre-war amount. The future development of the industry must depend upon exports, apart from the increase of home demand. Why Japanese bicycles could compete with foreign manufactures before the war was due to price rather than quality. Since the end of the war, quality has become the first essential in international competition for Japanese manufactures. Although there are still some hindrances in the production of first class goods, due to lack of special materials such as steel for tubes etc., the regional position of South-East Asiatic markets, and Japan's high production capacity of bicycle parts which being of the same standard can be adopted as supplements for British manufactures, will be favourable factors in the development of Japanese exports.

In brief, the promotion of exports is essential for the future development of the country's bicycle manufacturing industry. For the promotion of exports, it is necessary to improve the quality, reduce the manufacturing costs by rationalization, and to open up overseas markets after a proper investigation.

MEDIEVAL INDONESIA

The first historical references to Indonesia are found about the beginning of the Christian era, in Chinese sources. The annals of the Emperor Wang Mang (1-23 A.D.) contain a description of Indonesian affairs. Again in 132 A.D. another Chinese authority reveals that a king of Je-tio sent presents to the Emperor of China. The Je-tio is a Chinese transcription of Javadvipa referred to in the Hindu epic of the Ramayana. The Greek geographer, Ptolemy (160 A.D.) mentions the island of Iabadiu which represents Prakrit form of the Sanskrit Javadvipa. Sanskrit and Pali texts refer mostly to Javadvipa and Suvarnadvipa, the former of which has been identified as Java and the latter as Sumatra.

Thus while the Chinese annals speak of the existence of a kingdom in Sumatra and its relations with China, from Ptolemy's description we can establish the existence of trade connections between Indonesia and India as early as the first century of Christian era. It is quite possible that the seven kingdoms of Javadvipa mentioned in the Ramayana were the indigenous Indonesian kingdom. Some of the kings of the Hindu Indonesia (in Java) of the 8th century, held pure Indonesian titles. This shows that the titles must have been in use before the coming of the Hindus and therefore, in its turn, this fact speaks for itself that some organized Indonesian states must have been in existence before the arrival of the Hindus.

The continuous flow of the Hindu immigrants from India from the first to the seventh century A.D. shaped Indonesian culture and influenced deeply Indonesian civilization. The history of Indonesia has been the history of absorption and assimilation of foreign elements. But no sooner were the early immigrants absorbed and their civilization assimilated by the original inhabitants than the newcomers came.

The oldest inscription found in East Kalimantan (Borneo) gives us the clue to the existence of an Indonesian kingdom there around 400 A.D. From other evidence we can conclude there were many more kingdoms in Indonesia at that time. The name of Purnavarman, the king of Taruna in West Java, is associated with the oldest public irrigation work in Java whose length is seven miles and which was completed in twenty days.

Most of the immigrants from India followed Hinduism. It seems that Hinduism found favour with the Indonesians of the upper class and they became converts. Fah-Hien, the Chinese pilgrim who visited Java in 414, found almost all the population of the islands to be either Brahmins or heathens.

It appears that Buddhism was first preached in Indonesia by Gunavarman of Kashmir shortly after 420. His missionary activities were rather concentrated in Sumatra, though he visited Java too. Yet the statue of Buddha found near Palembang in Southern

Sumatra pushes the date of the appearance of Buddhism in Indonesia back probably to the second century, when the Shrivijaya kingdom which we are going to describe might have been born. Anyhow, it seems, that before the arrival of Gunavarman, Hinduism was the acknowledged religion of almost all the inhabitants of Indonesia. Relations between Indonesia and the neighbouring countries had been established. For a while Indonesia enjoyed the privilege of being a theological centre, and with a prominent place in the cultural world.

Gunavarman converted many princes to Buddhism. About the 5th or the 6th century Buddhism became the predominant religion of Sumatra. After extensive work by Sumatra missionaries most of Hindu-Indonesia was ultimately converted to Buddhism. The Indonesians blended the new religion and civilization with their own, and there sprang up a new civilization of the Shrivijaya Empire, with its capital in the city of Shrivijaya, the present Palembang. It was a Mahayana Buddhist kingdom which used the old Malay language.

Side by side with the Shrivijaya kingdom there was the Malayu kingdom of Djambi which the former conquered. For some time, the Shrivijaya kingdom was confined only to Sumatra. Later on Shrivijaya became a mighty kingdom, and in the eleventh century at the height of its power and glory, with hegemony over the western half of Java, Malaya, Kalimantan (Borneo), Sulawesi (Celebes), the Philippines, parts of Indochina and Cambodia, half of Formosa, parts of Southern China round about Canton, Ceylon and some parts of India facing Ceylon, and probably the territory on the south-east coast of India including Negapatam. The Empire was essentially a great naval power, based on trade and commerce. For another three centuries the Empire continued to control trade and commerce of Malaya till it was ultimately overthrown by Majapahit Empire in 1377 A.D.

Besides its worldly fame, the Shrivijaya Empire was renowned as a centre of culture and learning where pilgrims from China, on their way to India, used to stop. They stayed there for several years, collecting Buddhist manuscripts, studying Buddhist philosophy, acquiring Buddhist knowledge in preparation of their visit to India. The kingdom of Shrivijaya was known to India. It has been discovered that the revenues of some villages in Bihar were devoted to the support and upkeep of a Shrivijaya House at the famous Buddhist University of Nalanda.

Unlike Sumatra in Java both Shiva and Vishnu were worshipped. Though Buddhism existed side by side with Shivaism, the difference between the two disappeared gradually. The oldest temples which have been so far traced, situated on the Dieng Plateau in central Java, are solely dedicated to Shiva. And the splendid group of temples of Prambanam, also in central Java, centre round a Shiva temple.

Another state in Java was that of Kaling in central Java. It was a Hindu state. It might have something to do with India because there also was a Hindu state of the same name on India's east coast and probably for this reason too that the Indonesians of the present day call Indians in Indonesia Kalings. This was about the middle of the 7th century. Then, a new stream of immigration flowed into Indonesia and a new dynasty known in history as Shailendra arrived. The rulers of this dynasty were lovers of art, as those of Shrivijaya were of the sea. The dynasty succeeded in building an amazing number of stone temples and the greatest of them, known as Chandi Borobudur, still stands erect and attracts numerous visitors. It is indeed the greatest monumental achievement of the Shailendra period (760-860).

Then the centre of gravity of Indonesian history shifted to east Java, from which Hindu Majapahit, another great empire, spread its mighty wing throughout Indonesia.

For sometime, the history of east Java was that of the fall of one state and the rise of another, and the fall of one potentate only to be followed by the rise of his rival. It was also the history of ceaseless endeavour at unification of Indonesia and rapid expansion of trade and commerce and naval power, and this brought east Java into conflict with Shrivijaya but the former was able to maintain its independence.

First Mataram kingdom came into existence only to be substituted by its off-spring, the Kediri state (925-1222). With the fall of Kediri rose Singasari state, the last ruler of which, King Kartanegara, was the father of the crown Prince Vijaya, who laid the foundation of the Majapahit Empire.

After an initial set-back under the able leadership of Premier Gajah Mada, the Empire grew rapidly at the expense of the neighbouring states. Gajah Mada became Premier in 1331, and retained his office till his death in 1364. The Empire grew so powerful that it defeated the once most powerful Shrivijaya in 1377. Ultimately the entire Indonesian islands fell into the mighty hands of Majapahit Empire, and for the first time Indonesia was united under one Indonesian Government. Its might was felt by neighbouring countries. Siam too had to acknowledge its suzerainty.

The Government of this Empire appears to have been highly centralized and efficient. The system of taxation, customs, tools and revenue was excellent. Among the separate departments of Government there were a colonial department, a department of commerce, a department of public welfare and health, a department of interior and a war department. There was a supreme court consisting of two presiding judges and seven judges.

Majapahit was a trading empire having a big naval establishment and a mighty armada. The export and import trade was carried on chiefly with India, China and its colonies. The state of Majapahit lasted for about two cen-

turies but the greatest period of the Empire was from 1355 to 1380.

This imperialist state went the way of its old rival, Shrivijaya; it was the work of a few men, and with their death it collapsed. For sometime, however, it carried on as an independent state. Internal troubles and the famine of 1426 precipitated its downfall. Ultimately it gave way to the ever growing force of Islam (1478).

Our knowledge of the extensive commerce with the East carried on by the Arabs from very early times makes it safe for us to conjecture that Islam was introduced into Indonesia in the early centuries of the Hijroh. In the second century B. C. the Arabs monopolised the trade with Ceylon; in the seventh century A.D. they carried on big trade with China and till the coming of the Portuguese, they were the sole carriers of the trade with the East. Naturally they must have established some commercial posts in the islands of Indonesia. Chinese annals, under the date of 674 A.D., give an account of an Arab chief, and of an Arab settlement on the west coast of Sumatra. But the first chronicled date of the coming of Islam to Indonesia was the year 1111 when some Achinese of the north west of Sumatra embraced Islam at the hands of an Arab named Abdullah Arif. Burhanuddin, one of Abdullah Arif's disciples, later on carried Islam down the west coast as far as Pariaman in Minangkabau. By the 15th. century the kingdom of Minangkabau became virtually a Muslim state. The first Muslim state was established in Aceh in 1205 A.D., when Juhan Shah, its first ruler ascended the throne.

'Missionaries,' says Arnold, 'must also however have come to the Malay Archipelago (Indonesia) from the south of India... judging from certain peculiarities of Muslim theology adopted by the islanders. Most of the Muslims of the Archipelago belong to the Shafi'yyah sect which is at the present day predominant on the Coromandal and Malabar coasts, as was the case also about the middle of the 14th century, when Ibn Batutah visited these parts (1345). So when we consider that the Muslims of the neighbouring countries belong to the Hanafiyyah sect, we can only explain the prevalence of the Shafi'yyah teachings by assuming them to have been brought thither from the Malabar coast, the parts of which were frequented by merchants from Java... From Ibn Batutah we learn that the Muslim Sultan of Samudra (in Sumatra) had entered into friendly relations with the court of Delhi... But long before this, the merchants from the Deccan... had established themselves in large numbers in the trading ports of these islands where they sowed the seed of new religion.'

Marco Polo who had a short sojourn in the north coast of Sumatra in 1392 tells us that the townspeople of the kingdom of Perlak on the north-east corner of the island were Muslims. A Chinese traveller on his way to Sumatra in 1413 found that Lambiri in the north had a population of 1,000 Muslim families and the people and the king

of Aru kingdom were Muslims. In the first half of the 15th. century Islam made rapid progress in Southern Sumatra, particularly Palembang, and towards the close of the 15th. century in Lampung. Missionary work in both the places was carried on by Raden Rachmad from Java and Minak Kamala Buni, a chieftain from Lampung. At the end of the 15th. century a prince of Pajajaran, a state in the western part of Java, introduced Islam into the island. He went to India as a merchant and returned home a Muslim missionary. A century and a half later, an Arab called Maulana Malik Ibrahim started missionary work in east Java, where Gresik is situated. Gresik became the centre of gravity of this work, from which many a missionary was sent out. Thousands and thousands of Javanese embraced Islam and Muslim states were founded.

In the meanwhile the same work was carried on by the Arab, the Sumatran and the Javanese merchants among the inhabitants of Moluccas islands. But the real progress they made was in the 15th. century when a heathen king of Tidore along with his people accepted Islam as their religion and the King of Ternate went to Gresik in 1495 in order to embrace Islam. Assisted by other missionaries, these two kings exerted their utmost to convert their peoples to Islam with an unmistakable success.

In Kalimantan (Borneo), Islam was generally confined to the coastal areas. In 1521, the Spaniards found in the north a Muslim state of Brunei. By this time, the king of Banjarmasin, a state in the south, and his people had been converted to Islam and the state of Sukanada had in 1590 a first Muslim ruler.

In Sulawesi (Celebes), by the 16th. century, the Bugis and Macassars adopted Islam and by the beginning of the 17th. century the princes and the population of Sulawesi embraced Islam in large numbers; and the Sultanate of Macassar became afterwards a very powerful state. Similarly all other smaller islands of Indonesia such as Lombok, Sumbawa, Flores, Timor, Roti, etc. were overwhelmed by the dynamic force of Islamic teachings.

In the 16th. and 17th. centuries Indonesia was marked by the growth of Muslim Sultanates and their resistance against the advent of the Europeans. In Sumatra, the Sultanate of Aceh was so powerful that it held its sway not only over Sumatra but also over Malaya. The most important Sultanates of Java were those of Denmark, Bantam and Mataram, each of which had been in varying degrees influential in Java and the first of which had been even influential in the southern Sumatra. The Sultanates of Ternate and Tidore, west of Halmahera, held Moluccas islands under their sway, while Banda islands were under Muslim republics. In Sulawesi the Macassar Sultanate rendered good account of itself, as defender of the Faith.

MODERN INDONESIA

Besides being situated on the highway of commerce, Indonesia's commercial products had attracted traders throughout the world from the East as well as from the West. The first to come from the West were the Portuguese (1521). The westerners as traders were welcomed in Indonesia. But as soon as they began to interfere in religious, economic and political affairs, the Indonesians could not tolerate them. The Portuguese were greatly inspired by the spirit of the Crusades. The proselytising activities of the Portuguese made the Indonesians offer fierce resistance. The Indonesian Sultanates simultaneously waged wars against the Portuguese till in 1565 the whole Portuguese mission was brought to naught.

The Portuguese were followed by the Spaniards, the French, the Dutch and last of all, the English. Of all European traders the Dutch were the most important. They made their appearance in Indonesia in 1592. But, as usual, the flag followed the trade. They started interfering with and acquiring Indonesian territory and monopolising Indonesian trade and commerce. The Indonesians could not tolerate this and conflicts followed. These conflicts developed into wars especially when the Dutch resorted to proselytising activities in order to gain support from the converts. All the Sultanates arrayed themselves against the Dutch. But as luck would have it, by the 18th. century the Indonesian Sultanates began to decline, and the Dutch gained the upper hand.

Among the heroes of this period were Sultan Abdul Fatah Agung of Bantam state (1651-1685), Tarunajaya, a Prince of Madura, and Surapati, a Balinese Guerilla leader.

The whole of the 19th century in Indonesia was a period of consolidation of the Dutch power and life and death struggle for the Indonesians. All Muslim states succumbed to the Dutch imperialist power one after another. But this was only a blessing in disguise. The decadence of the Sultanates gave the opportunity for Indonesian territorial nationalism to assert itself once again. The impoverishment of the peasantry and the depression of the nobility by the Dutch, religious interference and other common sufferings under the Dutch maladministration helped to kindle this nationalism.

The first to assume national leadership was Abdul Hamid Dipa Negara, the elder son of Sultan Amangkubuwana III of Mataram. He had been for a long time secretly preparing for a conclusive deal with the Dutch. He and his people waged war against the Dutch for five years (1825-1830), inflicting heavy casualties on the Dutch who lost nearly 15,000 soldiers and spent about 20 million guilders.

Almost simultaneously, Tuanku Imam Bonjol, a great patriot and a staunch Muslim paritan, led a powerful revolt against the Dutch Government in Sumatra. But when Dipa Negara was captured in 1830 the Tuanku Imam had to bear the whole weight of the Dutch

might and was defeated in 1837. Both of them were exiled to Sulawesi island.

The last national hero of 19th. century Indonesia was Tenku Omar of Aceh. Aceh Sultanate was the last Indonesian stronghold that the Dutch could subdue. In 1878, war broke out between the Dutch and the Aceh Sultanate. In 1879, a great part of the Sultanate fell into the hands of the Dutch, but the rest continued to fight them under the skilful leadership of Panglima Polin Tenku Omar. This Aceh war taxed the Dutch imperialist heavily — more than 250 million — and the war dragged on for years without any decisive result. Military tactics having failed, the Dutch resorted to the policy of appeasement. In 1893, Tenku Omar was appeased and he allowed himself to be used by the Dutch. But on the 29th. of March 1896, while he was at the zenith of his power, Tenku Omar, all of a sudden, turned against the Dutch, and on the 11th. February 1899, a shot from the enemy made him a shahid in the battlefield.

The war of resistance went on. The last Sultan of Aceh was captured in 1903 and exiled to Java in 1907. The real war may be said to have ended in 1904, but battles and encounters on a small scale continued till 1913. We can mention many more insurrections such as the Bantam seditions (1849-1872 and 1888) in western Java, the Lombok war (1894-1896) in Lombok, the Goa war (1905-1907) in southern Sulawesi; and Kamang war (1908) in Minangkabau Sumatra, but they were of local significance. In many parts of Indonesia the Dutch never gained real control, and before they could sit comfortably as the undisputed single power in Indonesia, by 1908 the Indonesians had already organized themselves in a freedom movement on modern lines.

The Dutch started direct trade with Indonesia in 1595. In 1602 they founded the Dutch East India Company which was given power to perform acts of sovereignty in regions east of the Cape of Good Hope and west of the Strait of Magellan on behalf of the Dutch State General, and of sole monopoly in the shipping trade. The Company established settlements in Indonesia, first in Jacarta (Batavia) and then in many other places, and drove the Portuguese and the Spaniards out. The Company imposed its sovereignty over Indonesian territories and Indonesian potentates and chieftains and exacted tributes from them in the form of agricultural produce. Through the chieftains the Company forced the Indonesians to cultivate agricultural produce in their lands, thus depriving them of their main source of living. For example the Dutch restricted the production of spices and ordered that no nutmegs should be cultivated except in Banda Island. The Indonesians resisted and it was only after a century and a half of struggle that the Company was able to quell the 'rebels' by extirpating the entire population of Banda and one-fourth of the Amboina population. The Company stifled their trade and shipping by pushing them back into the villages to live a miserable life. This

monopoly right enabled the Company to send annually millions of guilders to Holland, and for two centuries dividends ranging from 12½ to 50 per cent were declared. At the same time the Company's officers who were underpaid to make the two ends meet, carried on illicit private trade which affected adversely the indigenous trade. On top of this, quelling the 'rebels' drained the resources of the Company. Though for a long time no profits accrued the shareholders in Holland had to be appeased with dividends they were accustomed to receive. This was made possible through large scale borrowing in anticipation of future profits. The debts of the Company amounted to 134,000,000 guilders. Due to this state of financial bankruptcy, the Company was dissolved in 1709, and its assets and liabilities were transferred to the Dutch Republic, which thus acquired the whole colonial empire of Indonesia with its ample resources to discharge the debts and to build up the Republic.

The Dutch Republic did not have everything its own way. Besides the Dutch there were two other powers to be reckoned with in Indonesia, namely, the British and the French. In 1803 all territories except Java, Timor, Macassar and Palembang were lost to the British. In 1810 the Netherlands themselves were annexed by Napoleon. On the fall of the Netherlands, the British, after driving out the French occupied Java. When the Dutch Republic regained Indonesia after 1816, it found itself engaged in colonial wars, namely, Dipa Negara or the Java War (1825-30), Imam Bondjol or Padri War (1821-39), etc. At home it had to suffer the Belgian revolt which ended in the separation of Belgium from the Dutch Republic in 1830. These troubles at home and abroad caused a deficit in the colonial budget and exhausted the home treasure. Faced with the financial difficulties and the problem of rehabilitation and reconstruction of Holland, the Dutch Government turned to Indonesia for a new source of income. A plan for the systematic exploitation of Indonesia was made. Under this plan the Government demanded from the peasants through their chieftains, either two-fifths of the annual harvest as land revenue or the cultivation of one-fifth of their rice lands with crops required by and for the Government. For building roads, canals and plantations, peasants were compelled to render one day's free labour every week. Indonesia was considered one huge plantation for the production of articles for the world market and a supplier of cheap labour. Thus the Dutch converted the economy of Indonesia into 'export economy', to the detriment of the well-being of its people. The culture system proved to be a real financial success. During the 48 years of its existence, namely from 1830, the amount of profits that flowed into Holland was no less than 823,000,000 guilders or an average amount of 17,500,000 a year.

This ruthless policy of exploitation was widely criticised both in Indonesia and Holland. Humane Netherlands

like Multatuli (Dekker), Baron van de Hoevell, van de Putte and the ethical group of van Devent and others tried to mould Dutch public opinion against the system. Ultimately under strong pressure from the States-General, which had been captured by the liberals, the whole culture system was abolished except for the compulsory production of sugar and coffee which was profitable at the moment. Though the law about sugar culture of 1870 abolished all Government enterprises in this field, the sugar plantations continued till 1890, and compulsory production of coffee went on till 1917. With the termination of the culture system in 1870, liberal ideology encouraged free enterprise for developing Indonesia. The era of open door system commenced. The Agrarian Act of 1870 gave full opportunity to private concerns to exploit Indonesia. They were allowed to lease extensive pieces of land up to 500 hectares from the Government for a period of 75 years, and from the farmers for a period of 25 years. In 1937, 56 per cent of the land was thus leased out. Nearly half of Sumatra was leased to Vereeniging of Amsterdam, the biggest enterprise in Indonesia. Private estates grew rapidly: and the control over colonial economy passed gradually into the hands of a few powerful Dutch corporations.

As these corporations required ready and cheap labour, the Coolie Ordinance was passed in 1880, according to which the workers were indentured to work in plantations or mines for a certain number of years. If they did not live up to their contract or ran away or refused to do their daily task they were liable to three months' imprisonment and to be sent back to finish their term of contract. This punishment was called 'penal sanction'. Thus in practice forced labour was replaced by indentured labour. The contract system was abolished only when in 1936 America, which was Indonesia's best customer, objected to importing goods produced by forced labour. Yet for all practical purposes, as late as 1938, some 18,700 labourers were still employed under this system, 6,173 being in Sumatra and Banka. Due to their disadvantageous position the Indonesians could not avail themselves of the blessings of the *laissez faire*. To them free trade meant freedom for the Dutch planters and capitalists to exploit the material resources and labour power of Indonesia. The pace of this new kind of exploitation was swift and well planned. Huge capital was invested in mining and agricultural industries. The situation about 1900 could be described as one of 'drained residencies' or of a 'neccessitous colony', and one could say that there was 'physical decline of men and cattle'. It was therefore no wonder that some Dutch men like van Kol raised the slogan 'No more robbery on behalf of the Netherlands' and 'Where we have formed slaves, we have to make men . . .'. A new step had to be taken. This new move as outlined in the Queen's speech of September 1901 was the 'ethical policy', which, according to Prof Schriekec must prac-

tically mean that the 'uplift of the natives should above all gradually become the dominating element in the governmental activities'. Thanks to the 'ethical policy' and the 'economic cooperation between Holland and Indonesia', private capital, not only Dutch but also foreign began to invade Indonesia, and inevitably, poor as the Indonesians were, they could not compete with it and soon became a cheap commodity of labour. In 1940, in an estimated investment of foreign capital of 4000 million guilders, the Dutch share was 3,000 million; British 450; U.S.A. 380; French and Belgian 160, Japanese, German and Italian 30. Thus three quarters of the capital in Indonesia was Dutch. The development of Indonesian industries had been very tardy. Only after 1930 could there be some development of industries, mostly small-scale and cottage industries which in 1939, it was estimated, engaged about 2,200,000 labourers out of the then estimated population of 70 millions. In agricultural industries, from 1936 to 1940 the

native grown crops showed an increase of 7 per cent and an export value of about 38 per cent. On the other hand the estate produce showed a decrease of 28 per cent but the export value an increase of 66 per cent. 69.3 per cent of agricultural exports were produced on estates. Indonesian farms produced only 31.7 per cent the export of which was monopolised by foreign concerns and business magnates. In 1939, no less than 61 per cent of the total export tonnage was sent to Holland. The share of the Dutch in the incoming shipping was 46.7 per cent, of U.K. 30.7 per cent and of Japan 9.4 per cent. Of the coastal and inter-island trade the Dutch shared 79 per cent, U.K. 11 per cent, and Japan 2.7 per cent. In this way an average of 500 million guilders flew to the Netherlands every year.

This drain means a heavy burden on the back of Indonesians. The truth of this can be seen from the statistics of the distribution of income in Indonesia in 1941. The Europeans and Eurasians

while constituting 0.4 per cent of the total population received 65 per cent of the income; non-indigenous Asians who account for 2.2 of the population received one-fifth of the income whereas the Indonesians who form 97.4 per cent of the population received only one-eighth of the income. The average yearly income of the Indonesian farmer is 20.80 guilders, that is to say, 5 cents per day. During world crises it even fell to 2½ cents.

How little the Indonesians enjoyed the wealth of their country can be imagined from the fact that Indonesia is immensely rich and provides the world with the following items of its requirements; pepper 92 per cent, cinchona 91 per cent, bauxite 8 per cent, kapok 77 per cent, tobacco 50 per cent, rubber 40 per cent, tow fibres 33 per cent, copra 31 per cent, cocoa products 29 per cent, sugar 25 per cent, agave 25 per cent, oil palm 25 per cent, tea 19 per cent, oil 10 per cent, coffee 5 per cent, etc.

Commercial Markets

JAPANESE TRADE DISPLAY IN HONGKONG

Recalling the pre-war experience, when Japan goods not only threatened to sweep world markets in so far as cheaper goods were concerned but were also preparing to compete in better grade goods, the display held last week in Hongkong created tremendous interest locally.

During post-war years Hongkong's industries, freed from the threat of Japanese competition, have expanded very considerably and there appeared every possibility that locally manufactured goods might find a place in world markets that was formerly almost exclusively occupied by the Japanese. The recent display must have the effect of awakening local manufacturers to the realities of the situation, as it was clear that the articles displayed would in most cases be able to compete in workmanship and quality as well as in price with the locally made article.

The exhibition was primarily intended to indicate the extent to which Japanese manufactures had advanced since the war, and the promoters did not make any extensive arrangements to attract the general public. The exhibits were, however, of very great interest to individual industrialists who were able to gauge for themselves for the first time since the war, the strength of the competition that they might expect.

The articles displayed covered a very wide range of goods including, to mention only a few, cotton piece goods, metal and enamelwares, porcelain, flashlights, kitchen utensils, electric equipment, rubber goods (including rubber toys, tyres, tubing and rubber shoes), gramophones, clocks, lamps, racquets, etc.

There is no doubt that local factories are now beginning to face keen competition and as time goes on this competition will increase, not only from Japan who is already entering the South-East Asian markets, but by the establishment of new factories in these countries themselves. To this must be added the lack of standardisation by the Hongkong manufacturer and a frequent failure to deliver on time, which must inevitably result in the cancellation of orders. There is furthermore the definite loss of China markets, due to the policy of the Communists to keep down imports of manufactured goods to a bare minimum in order to encourage domestic industrial production.

It is interesting to note, however, that the Hongkong manufacturer is fully aware of these developments and of the need to keep up the standard of his goods. An excellent opportunity is at hand to demonstrate this in the proposed International Industrial Exhibition to be held in Pakistan in September. Pakistan is one of the Colony's best markets and therefore in view of the many competitors, the quality of the locally manufactured goods must not only be high but the price must be

commensurate with the articles displayed by manufacturers from other centres.

HONGKONG'S INTEREST IN THE JAPANESE TRADE EXHIBITION

During the days the exhibition, referred to above, was open to the public the interest evinced by the general public was most impressive and revealing. During the hot hours of every day large throngs were besieging the premises where the exhibition was held; business executives, students, brokers, whole families, people of all nationalities were waiting, in long rows, on the street until their turn came.

Interest in things Japanese is growing, the postwar hysteria seems to have passed and a more unbiased study and appreciation of Japanese life and the

amazing vitality of the Japanese people is attempted by even those who were once loudest in clamoring for trials of war criminals.

The resurgence of Japan is a fact and with US support that nation is once again bound to play a major role in world political affairs. Hongkong has realised the trend of postwar Japan's recovery quite early and being devoted to trade promotion and the money-making which accompanies such laudable intent, the man-in-the-street (who in Hongkong is inevitably some sort of trader) has followed, with whatever intelligence he could muster, the steady progress of 'Prussia of the Far East' and he has drawn very realistic conclusions from this progress. His phobia has given way to envy plus reluctant appreciation and as there is no change in the current trend considered possible the local merchant is trying—and with much success in the

past few years — to turn Japan's phoenix-like ascent to good fortune for himself.

But while there is no apprehension felt about Japan's return as a military power in Asia—and America rules the waves in the Pacific—her commercial hegemony is a matter of great concern to the less competent manufacturers in this part of the world. No doubt, given more equal opportunities the Japanese traders and manufacturers can sweep Far Eastern competition away and few only, in specialised types of industry, will survive. Looking at Japan from this angle, the 'peril' appears very real indeed and therefore the mass interest shown here in the Japanese exhibition can be partly explained by the harboring of motives of the 'control and embargo type.'

Hongkong has become 'Japan conscious' and with the expected return of Japan to the comity of nations—a long overdue step now probably to be taken first by the US—relations with Japan should soon be intensified. Many reports and surveys of Japan's economy are therefore included in the current issue if this *Review*, with the hope that more understanding of postwar Japan's problems will be gained.

Shanghai-made Towels

Apart from the forms of competition to which locally made goods are liable, and which are referred to above, Hongkong manufacturers are also sometimes brought face to face with an additional handicap that can arise from the nature of Hongkong as a free port. This is, that the local market is liable to be overloaded with goods from other countries that are competitive with those made locally, and in disposing of them elsewhere it may transpire that the outlet is blocked for the local wares.

A case in point has recently arisen over a shipment of towels made in Shanghai and sent to the Colony under the impetus of the Communists' export drive. These towels found no sale in Hongkong and were consequently diverted to other markets in Singapore and Thailand. Unfortunately, however, the despatch of these towels coincided with the cancellation in Great Britain of an important order for locally-made towels which failed to comply with the contract stipulation regarding delivery. The local makers, therefore, finding themselves with a large quantity left on their hands sought an outlet for them in some of their usual markets, only to find that the demand had been satisfied by the prior arrival of the Shanghai make.

It is easy to say that the Hongkong manufacturer brought his dilemma upon himself through his own failure to comply with the terms of delivery, and unfortunately this is a not uncommon fault, but even at best the possibility exists that at times a burst of energy on the part of Hongkong importers may lead to a saturated market elsewhere and the consequent blocking of an opening for Hongkong goods.

British Gasoline Rationing Ended

The British government announced on May 26 the end of gasoline rationing first imposed in 1939. This surprise decision followed acceptance of an offer by Standard Oil Company (New Jersey) to supply all additional gasoline requirements of their British and United Kingdom affiliates for 100 per cent sterling payments. The sterling received for the additional supplies may be used to purchase goods and materials within the sterling area for use outside the sterling area.

Standard Oil Company (New Jersey), whose British affiliate Anglo-American Oil Co., Ltd., supplies more than a quarter of Great Britain's gasoline requirements, has made numerous proposals to reduce the dollar cost of their supplies.

This latest plan is intended to cover the period between now and completion of the new Esso refinery under construction by Anglo-American at Fawley, near Southampton. This huge plant, the largest in Europe, will refine 110,000 barrels daily of petroleum products from Middle East crude oil. It will also contribute substantial dollar savings to the British economy. Although work is going forward as rapidly as possible, the project is not expected to be completed before 1952.

After the new refinery goes into operation, it will produce enough sterling gasoline to supply Anglo-American's requirements without relying on gasoline from dollar sources.

Iron and Steel Colonial Requirements

All Colonial requirements of most types of iron and steel will be fully met in 1950. This is the claim of the annual report of the Colonial Office just presented to Parliament. The year under review witnessed a marked improvement in supplies of the main classes of goods which the colonial territories require to import, says the report. "In the second half of 1949, there was a satisfactory increase in United Kingdom exports of iron and steel to the Colonies, compared with exports in the first half-year and in the previous year. In the early months of 1950 it was possible still further to increase the supplies available and it is expected that all colonial require-

ments of most types of iron and steel will be fully met in 1950. There is still difficulty, however, in obtaining sufficient supplies of sheet steel and piping.

The increase in exports of iron and steel and manufactures thereof from the United Kingdom to the Colonies between 1947 and 1949 is shown by the following table.

	1947	1948 (000 tons)	1949
West Africa	47.1	48.6	88.3
East Africa	45.2	71.2	88.1
Northern Rhodesia	8.3	12.3	21.3
Singapore & Malaya	40.6	36.9	61.1
Hongkong	21.9	35.1	36.5
West Indies	33.4	41.9	63.2

"Supplies of machinery and heavy equipment were also easier, although delivery periods were in some instances very long. Deliveries of jute bags and packing material from India continued to be inadequate. Supplies of cement were generally not restricted except by difficulties over port clearance in certain Colonies. The United Kingdom was the chief supplier, exports during 1947-1949 being as follows:—

	1947	1948 (000 tons)	1949
W. African Colonies	139	190	294
East Africa	57	99	145
Singapore & Malaya	66	94	110
West Indies	86	110	118
	348	493	667

"The improvement continued in supplies of textiles, and colonial imports of cotton and rayon piece-goods in 1949 greatly exceeded imports in any previous year.

Colonial imports of cotton piece-goods
(000 square yards)

1937	1947	1948	1949
766,000	687,000	766,000	900,000 (estimate)

"The United Kingdom supplied about 30 per cent of the cotton piece goods imported into the Colonies in 1949, although this included foreign cloth finished and processed in the United Kingdom. Other important sources of cotton piece goods were Germany, India, Japan and the soft currency European countries."

HONGKONG COMMODITY MARKETS

(HK\$ equals 1/3d. or US 17½ cents.
1 picul equals 133.3 lbs.)

Cotton Piece Goods & Cotton Yarn

The Cotton Piece Goods market continued more or less stagnant during the week, except for purchases of Grey Sheetting and Printed Cloth by Singapore and Thai buyers. As a result of shipments direct to these markets from Japan, local dealers were obliged to cut the rates further of Japanese goods in order to meet the Japanese indent prices. On the other hand, Shanghai piece goods which for some time have been very quiet saw a renewal of activity with orders from Pakistan dealers for 20,000 pieces Grey Sheetting for July delivery, and prices showed a rise. At the close of the market prices were: Grey Sheetting, Fancy Butterfly, Double Flying Dragon, and Flower & Bird 38" increased to \$39.50 per piece, Mammoth Bird rose to \$40, Peacock to \$41.50, Fairy Eagle rose to \$38 per piece, Four Lotus to

\$39, Dragon Head to \$40.50; Japanese 2023 fell to \$36 per piece. In Black Cloth, Amoy dropped to \$42 and Angel Fish to \$53 per piece. In White Cloth, Hsun Liang Yu (Lady on Horse) fell to \$41.50 and Parachute to \$44.50 per piece, while Tsing Mu Lan rose to \$41. Indanthren Angel Fish sold at a lower price of \$75 per piece and Wild Bear No. 20, 40, 55, 60 fell to \$65.

Sales of **Cotton Yarn** to Thailand, Indochina, Indonesia and other places have helped to reduce the heavy stocks held in Hongkong since the new regime took over in China, particularly after the occupation of Canton. Few transactions took place during the past week, but prices were higher as a result of the lower stocks: In 10 counts, Camels rose to \$820 per bale, Double Lion to \$810, Flying Elephant to \$770, Flying Peacock to \$680, Jayashankar Mills to \$685 and Kaleeswarar Mills to \$680 per bale; in 20's, Blue Phoenix rose to \$1100 per bale, Camel to \$1150, Double Lion to \$1125, Golden Gity to \$1160 and Golden Peak to \$1170, Gokak Mills sold at \$830 per bale, Hindustan at \$845, Jayashankar at \$810, Kaleeswarar at \$797, Royal Textile at \$825, Two Swallow at \$1136 per bale.

Raw Cotton

Although shipments from Hongkong to North China ports have shown an increase recently, these has mainly been from local stocks in fulfilment of outstanding orders and have not affected the local market to any appreciable extent. Business on the whole remained dull, and prices fell: USA 1" declined to \$1.90 per lb., $\frac{3}{8}$ " 1st quality remained at \$1.82 and 2nd qual. at \$1.80 while 15/16" 1st qual. stood at \$1.87; Pakistan 48/49 NT-roller gin dropped to \$1.88, LSS-roller gin fell to \$1.83, 4F-roller gin to \$1.77 and 289F to \$1.87 per lb.

Metals

The market for **Mild Steel Plates** was weak with a few transactions by North China and Taiwan dealers. Uncertainty exists in regard to the requirements of China in such metals, as imports are only permitted when local production falls behind the demand and the quota is known only to the Communist authorities themselves. Imports are still permitted into South China, however. Such trading as was done took place mainly in 4 x 8 ft. 1/16" which sold at the lower price of \$36 per picul, 3/32" which fetched \$38 and $\frac{1}{8}$ " which sold at \$27; 1/32" remained at \$48 per picul, 3/16" $\frac{1}{4}$ " and $\frac{3}{8}$ " were offered at \$29, 5/16" at \$33 and $\frac{1}{2}$ " and $\frac{3}{4}$ " stood at \$32 per picul. **Mild Steel Bars**, which had seen a fall during the previous week with the arrival of over 100 tons as well as a lack of demand from China, showed signs of activity last week following an announcement by the People's Govt. that the importation would be permitted of goods purchased with self-provided foreign exchange. The anticipation exists that plans for the rehabilitation of China will require a considerable amount of steel bars for construction purposes, and that Hongkong will be in a position to furnish them. Some demand for Round Bars 40 ft. 5/16" sent the price up to \$35 per picul, $\frac{1}{4}$ " rose to \$29, and $\frac{3}{8}$ " to 1" were quoted at \$25.50, $1\frac{1}{2}$ " was offered at \$31, $1\frac{1}{4}$ " at \$33 and $1\frac{1}{2}$ " at \$32 per picul; 20'-22' 2" and 3" rose to \$33 per picul. Angle Bars also showed an improvement, $\frac{3}{8}$ " thick $\frac{3}{4}$ " rising to \$38 and $\frac{1}{4}$ " thick 2" and $2\frac{1}{2}$ " being quoted at \$28 per picul. The report that the North China authorities were permitting the importation of **Wire Rods** stimulated purchases and brought a rise in prices: British 1st quality 3/16" and 7/32" were quoted at the higher rate of \$26.50 per picul; French 2nd qual. 5/16" rose to \$22 per picul, but 3/16" and 7/32" remain-

ed at the earlier price of \$19 and $\frac{1}{4}$ " and $\frac{3}{8}$ " at \$18 per picul.

Zinc Sheets were active with demands from local flashlight manufacturers as well as buyers from the mainland. Prices rose, but in some cases dealers refused to sell anticipating a further increase with the opening of Shanghai to trade: Polish 3' x 8' G4 rose to \$138 per picul, G5 sold at \$150, G6 at \$140, G7 and G8 were quoted at \$132; Belgian G2 was offered at \$152 and G5 sold at \$150, the indent prices of G5 and G6 having been raised to £148 and £146 per ton respectively; USA 3% x 6 $\frac{3}{4}$ " G5 $\frac{1}{2}$ fetched \$150 per picul. Zinc Sheets (used) rose to \$72 per picul.

Chinese Communist agents were actively in the market for about 300 tons of **Copper Wire** under their plans for extending and improving telephonic communication in China. Prices accordingly rose: G6, G8, G10, G12, G14 and G16 were quoted at \$230 per picul, G18 was offered at \$240, and G20, G22 and G24 rose to \$245 per picul.

Taiwan buyers were engaged in large purchases of **Steel Wire Ropes**, the British make being preferred to the Japanese as being more dependable: British 1" and $1\frac{1}{4}$ " advanced to \$2 and \$1.75 per lb. respectively, $1\frac{1}{2}$ " was quoted at \$1.50, 2" at \$1.10, $2\frac{1}{4}$ " at \$1.05, $2\frac{1}{2}$ " at 90 cents per lb.; Japanese $1\frac{1}{4}$ " was offered at \$1.50, $1\frac{1}{2}$ " at \$1.40 and $1\frac{3}{4}$ " at \$1.30 per lb.

Australian **Zinc Ingots** 99.9% improved with keen demands from Shanghai factories transactions being effected at \$115 and later increasing to \$120, the Polish product fetching the same price; local zinc ingots sold at \$90 per picul. Pig Lead 99% was weak, the price falling to \$86 and later to \$80 per picul; Australian standard quality was quoted at \$98 per picul, and the Canadian product at \$100. Java Lead Compound, with new shipments arriving, was offered at the lower price of \$62

and fell further to \$60 per picul. Pig Lead Bars stood at \$76, and Mixed Lead Ingots at \$70 per picul.

The Tinplate Waste market, with growing demands from North China, showed renewed activity but without price improvement on account of large local stocks: USA Bethlehem Steel Corp. 18-24" upward tonnage packing (coke) sold for \$67 per 200 lbs. and 2nd qual. 200 lbs. 3-10" was quoted at \$54.; US Steel Corp., with permit, in cask packing (coke) fetched \$69 per 200 lbs. for 18 x 26, 22 x 26 and 25 x 28; Weirton Co. Bat brand (coke) 10 x 10" also fetched \$69 per cask. Electrolytic Tinplate was dull, USA Wilson 18 x 24" being offered at \$60 per 200 lbs. and the ordinary quality tonnage packing at \$59 per 200 lbs. Misprint Tinplate (USA) is in demand by dealers from Macao and Canton and prices showed an improvement: white base 1st quality sold at \$40 per picul, yellow base at \$39 and black base at \$28 per picul. Blackplate Waste was offered at \$25 per case for G29-33, with little demand.

Cement

The arrival of a large shipment of Japanese cement served to bring down prices on the local market, the spot price falling to \$4.90 per 100 lb. bag, while the forward cif price per ton was \$85 and ex-ship was quoted at \$92 per ton; Indochina Dragon brand fell to \$5.65 per 1 cwt. bag, and the 94 lb. bag rose to \$5.20 although the ex-godown rate fell to \$4.80 per bag; Danish Bate brand white cement in 1 cwt. bags fell to \$13.10 the cif price standing at \$240 per ton. Green Island Rapid Hardening Emeraldcrete fell to \$7.55 per 112 lb. bag. (official price \$7.25) and Emerald brand dropped to \$6.55 per 112 lb. bag (\$6.25), the 94 lb. bag being quoted at the regular price of \$5.35. Snowcrete British white cement was offered at \$58 (\$55) per drum of 375 lbs. nett. Snowcem British cement paint was quoted at the usual price of \$58 per steel drum of 112 lbs. nett ex-godown.

Paper

Buyers from Australia, Singapore, Penang, the Philippines and Indonesia, were in the market for Paper as well as local dealers who were building up stocks in anticipation of price increases following raised price levels set by the European Paper Convention, as well as Czechoslovakia and Austria. Demand was keenest for Parchment, M. G. Sulphite Paper, Bond Paper, M. G. Ribbed Kraft and Newsprint in sheets, bringing about a rise in prices: Bond Paper with watermark 22" x 34" 26 lbs. rose to \$16.50 per ream, 30½ lbs. to \$18 and 32 lbs. white to \$19.50 per ream, unwatermarked 26 lbs. sold for \$16 and 32 lbs. white for \$18.80 per ream; Half-bleached Parchment 24 lbs. 30 x 40" improved to \$22 per ream, Czech 23 lbs. fetching \$21 per ream; Parchment 20 x 30" rose to \$13.80 per ream. M. G. Sulphite Paper sold at the following rates: 40 lbs. brown 35 x 47 \$20.80 per ream, 35 lbs. 31 x 43 \$16.50, 40 lbs. 35 x 47 \$21, 47 lbs. 35 x 47 \$23.80, 40 lbs. pure 35 x 47 \$23.50. M. G. Ribbed

Kraft 47 lbs. 35 x 47" sold at \$21.30 per ream, 40 lbs. at \$20.50, 50-100 lbs. at 50 cents per lb. Newsprint in sheets 50 lbs. 31 x 43" increased to \$16.80 per lb. and USSR 45 lbs. 30¼ x 42¾" to \$15.50. Yellow Strawboard (Holland) being low in stock was quoted as follows: No. 8 25"/33" \$325 per ton, No. 8 (Taiwan) \$330, No. 10-16 and 20-40 (Holland) \$430 and \$460 per ton respectively.

Rice

Arrivals of Rice brought down the price on the open market: Australian rice was quoted at \$70 per picul and Thailand Sword brand at \$75.50; Chai Mei Five Bats (red Line) 1st quality, new, was offered at \$81 per picul, U-long 1st qual., new, fetched \$76 and 2nd qual. \$74 per picul; See Mew, U-long 1st qual., new, was quoted at \$76 and 2nd qual. at \$74 per picul.

Vegetable Oils, Ores & Other China Produce

Activity in Tungoil (Woodoil) on the local market, following reports that stocks in the US were running low, caused a considerable rise in prices: Tungoil (Concentrate) rose to \$154 and \$155 per picul with 2-weeks forward quoted at \$151, the USA buying offer c. & f. was US 21 cents per lb. and the European buying offer £178 per ton. A rise in the price of Teaseed oil 4% acid on the Canton market as a result of a steady flow of exports, brought an increase in Hongkong to \$138 per picul with one-week forward offered at \$135; the c. & f. Europe quotation was also increased from £160 to £166 per long ton. Little business was, however, transacted, as buyers were not interested after completion of a shipment to the US. Aniseed oil 15% was dull, few transactions taking place at the increased price quoted of \$635 per picul. Local exporters were out of the market for Cassia oil 85%, the price of which dropped to \$1500 per picul, the US buying offer c. & f. also falling to US\$1.80 per lb. Cottonseed oil showed an increase in price to \$103 per picul. Rapeseed oil with a few transactions rose to \$95 per picul. Linseed Oil remained at \$108 per picul on a dull market. Singapore Coconut oil was offered at \$120 per picul and the Thai product at \$117 per picul.

Since the Chinese Communists imposed a monopoly upon the export of minerals from China, Hongkong merchants have found it difficult to obtain sufficient supplies apart from the quantities that find their way to the Colony via Macao, and business on a large scale has been rendered almost impossible. On such transactions as took place during the week, prices showed an increase, Tungsten (Wolframite) 65% being offered at \$280 and 52% at \$210 per picul; Korean Tungsten was quoted at \$260 per picul. Kwangsi Tin Ingots 99% were offered at \$585 per picul and the Yunnan product at \$580, Singapore Marked Banker 99.75% rose to \$615 and \$620 per picul due to an increase in the London market rates to £612 per long ton. China Tin 60% rose to \$350 per picul, while 40% for soldering remained at \$215 per picul.

The bulk of the Tin held on the local market comes from stocks released by the Communist agents for the sake of obtaining foreign exchange. The South China Trading Corp. is understood to be making preparations for taking over stocks of Tin Ingots 99% held in Canton at a lower price than that quoted on the market, which will involve the Canton merchants in a loss. Antimony 99% showed a downward tendency and although the rate quoted by sellers was \$158 per picul, Indian buyers who were in the market counteroffered at \$150 per picul but without sales being effected. Relaxation by the People's Govt. of export restrictions upon Antimony and the possibility for merchants to make shipments of the mineral against the surrender of foreign exchange has resulted in a considerable quantity being despatched to Hongkong, on the basis of which buyers look for lower prices. Kwangsi Copper (Coin) Ingots were in demand by Indian buyers, lowering local stocks and causing a rise in price to \$108 per picul.

Cassia Lignea in 60-catty packages was in keen demand by Indian buyers, reacting to the announcement by the Indian Govt. that import licences would be issued to the amount of 10,000 packages to cover the April/June quota. The hope that the quota would be increased for the following quarter introduced a note of optimism into the market: West River Cassia Lignea 60-catty packing 1st quality rose in price to \$37 per picul and 2nd qual. to \$32, while the 84-catty packing increased to \$39 per picul for 1st qual. and \$35 for 2nd qual.; West River Cassia Lignea in bulk rose to \$30 per picul. Purchases were made of Tunghing Cassia Whole at \$73 per picul and of Tunghing Cassia Unscraped at \$57 per picul for shipment to the US. Plentiful arrivals of Gallnuts from North China brought down the price to \$102 for Chungking 2nd qual. and the Luichow product, while the Korean product was offered at \$100 per picul. The low buying offer from Japan of US 22 cents per lb. c.i.f., brought down the price of West River Ramie to \$185 per picul and of the Chungking fibre to \$165 per picul. East River Rosin on the other hand rose to \$29.50 per picul with various transactions. Hankow Gypsum fell to \$18.50 per picul. Aniseed Star also showed a decline last week, the Haiphong 1st qual. falling to \$85 per picul and Nanning 1st qual. to \$86 per picul.

An increase in the US buying offer for Bristles to US\$3.30 c. & f. from the previous offer of \$3.15 per lb. for the Chungking product, and to US\$6.50 from US\$6.20 for the Tientsin quality was welcomed on the local market. With the prospect of direct shipments from Shanghai to other countries following the breaking of the blockade, any permanent improvement in prices locally is not, however, anticipated.

Little activity was shown in Feathers during the week. Duck Feathers 85% remained at \$350 per picul, the US buying offer being US 50 cents per lb. c. & f., but Goose Feathers 85% fell to \$440 per picul (US 60 cents per lb.).

Trade Enquiries for Hongkong Firms

The following enquiries have been received and Hongkong firms interested are asked to contact the enquirers direct, and not through the office of the Far Eastern Economic Review:—

Enquirer	Merchandise
Messrs. S. O. Ojeyomi & Co., 4 Way Lane, Lagos, Nigeria	Would like to contact exporters of the following articles: Padlocks, fountain pens, stationery, scissors, pocket knives, reading glasses, underwear, torch cases and bulbs, hand bags, belts, umbrellas, felt and straw hats, leather and canvas shoes, clocks and watches, cycle parts, tubes, motor spare parts, electrical goods, enamel and earthenware, sewing machine spare parts, sewing threads, gramophone and spare parts, mouth organs, knives, spoons and forks, etc.
Baiyewu Trading Company, 43 Aisomo Street, Lagos, Nigeria	Importers and Exporters: Embroidery canvas, machine spare parts, watch straps, needles, belts, stationery, torch cases, underwear, cotton yarns, razors, clippers, rope, padlocks etc.
M. Kemal Davasliligil, Anafatarlar Caddesi, No. 236/7, Izmir, Turkey	Wish to contact importers of beans, chick-peas, lentils, etc., Dried fruits—raisins, dried figs, sweet almonds, walnuts, hazel nuts, dried apricots, plums, etc., Oil seed: linseed, hempseed, sesame, sunflower, etc., Beeswax, cotton, raw leather, etc.
The Engineer Industries, Mubarik Pura, Sialkot City, Pakistan	Require bristles for paint brushes, soft, dressed and black. $2\frac{1}{2}$ " 3" $3\frac{1}{4}$ " $3\frac{3}{4}$ " in length.
H. Eldridge & Son, 5th Floor, 154 Castlereagh St., Sydney, Australia	Wishes to contact manufacturers or distributors of commodities associated with millinery, including straw braids, sisal hoods, fur/wool felt hoods, silk and other ribbons, leather trims, hat pins, etc., Supplies of Swiss Rapal braids and Rasello hood needed. Can export certain foodstuffs, quick frozen products and fruit cake.

Japanese Exporters' Offers:—

Amata-Shoten (exporters), Central P. O. Box 56, Nagoya, offers to export cotton rags, bristles, agar-agar, menthol, peppermint oil, fishing nets and tackles.

Hakko Seisakusho, K. K. (Hakko Manufacturing Co., Ltd.), (manufacturer), 949, Zoshigayamachi 7-chome, Toshima-ku, Tokyo, offers to export bronze, brass, and aluminum casting accessories for bearings, valve cocks, window frames, and other parts of rolling stock (locomotives, passenger and freight cars), marines, and general machines. Also, the "Takara" sealing device (patented in Japan) for freight cars.

Hankyu Sangyo Co., Ltd., (manufacturers, exporters, importers), Hankyu Building, Umeda, Kitaku, (P. O. Box: C. 287), Osaka, desires to export Japanese takase (trocas, shell buttons).

T. Kimura Shokai (importers, exporters, commission agents, manufacturer) P. O. Box: Kyobashi 35, Tokyo, wishes to export cameras, binoculars, toys, artificial flowers, Christmas goods, sewing machines, and novelties.

Marumo Crystal Industry K. K. (manufacturer), No. 21 Chiyoda-cho, Nakano-ku, Tokyo, desires to export rock crystal beads, such as 32 cut beads, orange cut and basket cut beads.

T. Masuda & Sons (importers, exporters), No. 18, Higashi-Horikawa, Kitaku, Osaka, desires to export "Shozan" brand art porcelain dinner, coffee, and tea sets.

Miyazono Industries, Ltd. (exporter), Hachimansuji-Denteimae, Minamiku, Osaka, offers to export "Savage" brand glass cloth wallpaper.

Nagoya Togyo Co., Ltd. (manufacturers and exporters of tiles), 6-chome, Furusawa-cho, Naka-ku, Nagoya, offers to export wall and floor tiles, mosaic tiles, porcelain and earthenware, bamboo products, alarm and wall clocks, agar-agar, toys, ornaments, and novelties.

Ohta Plant, Fuji Industrial Co., Ltd. (manufacturer), 747, Ohta-City, Gumma-Prefecture, seeks markets for "Rabbit" motor scooters and "Zephyr" bicycles.

Okamura Seisakusho Mfg. Co., Ltd. (manufacturer and dealer of metal furniture and office appliances), No. 1515, Koshigee, Okamura-cho, Isogo-ku, Yokohama, offers to export metal furniture and office appliances.

Riken Maebashi Piston Ring Industrial Co. (manufacturer and exporter), No. 7 Kanda Suda-cho 1-chome, Chiyoda-ku, Tokyo, offers to export piston rings for marine,

automobile, and other uses; textile machines, principally warping machines and winders; and forging products in general.

Sampo Trading Co., Ltd. (manufacturer and exporter), 401, Kizuki, Kawasaki, offers to make antimony figures according to designs submitted by firms.

Shimada Industry Co., Ltd. (cotton and cotton waste merchants) No. 3½, Tosabori Funamachi, Nishiku, Osaka, desires to export handmade hooked rugs.

Suka Manufacturing Co., Ltd. (manufacturer), 2-2 Kanda Suda-cho, Chiyoda-ku, Tokyo, offers to export the following textile machinery and related equipment: throwing machines, doubling machines, ring twisting machines, double twisters, double deck winding machines, reeling machines, ring spinning frame boulette, cone winders, warping machines, tin bobbin winders, pot sizing machines, and hollow twisters.

The Taihei Trading Co., Ltd. (merchants, importers and exporters), 12, Gobancho Chiyoda-ku, Tokyo, offers to export "Duralac" lacquer wares, such as berry sets, compotes, salad bowl sets, whisky sets, toilet service trays, egg-cup sets, condiment sets, napkin rings, lamp stands, flower vases.

Tazuke & Co., Ltd. (exporters), 30, Bingham-machi 2-chome, Higashiku, Osaka, offers to export raw staple fibers.

Toho & Co., Inc. (importers and exporters), Toho Industrial Building, 2 Yotsuya San-Chome, Shinjuku-ku, Tokyo, desires to export raw cotton and wool, textiles, hides and skins, bamboo and rattan products, and rubber goods.

Tokyo Gas & Electric Industrial Co., Ltd. (Tokyo Gas Denki Kogyo K. K.), (manufacturer), 100, 1-chome, Iriarai-machi, Ota-ku, Tokyo, offers to export air-cooled universal gasoline or kerosene engines (2, 3, 5, 7½, and 15 horsepower); textile dyeing and finishing machines (circular rib knitting machines, circular plain knitting machines and hand-drive sock-making machines); communicating machines, such as telegram copying machines, and telegram delivery form folding machines; electric hair clippers; 1/20—1/16 horsepower electric motors; turbine blades; automobile parts; cement roofing tiles; construction machinery; various kinds of machine parts.

Tokyo Screw Works (manufacturer), 143 Katase, Fijisawa-shi, Kanagawa-pref., offers to export bolts, nuts, rivets, sewing machines, truck parts, gages, taps, steel wires (hot rolled and cold drawn), spindles for silk spinning, industrial machines, such as headers and spinning machines.

Financial Reports

INTERNATIONAL MONETARY FUND ON GOLD SALES AT PREMIUM PRICES

The Executive Board of the Fund has published its Report on External Transactions in Gold at Premium Prices, in accordance with the resolution adopted by the Board of Governors on September 16, 1949, relating to the resolution proposed by the Governor for the Union of South Africa.

"The Executive Board has given thorough consideration to the South African resolution and has reviewed the Fund's policy as expressed in the statement of June 18, 1947 on external transactions in gold at premium prices. The staff of the Fund studied at length the various problems involved and the Executive Board carefully considered the findings of the staff and the arguments for and against a change in the present policy. After full discussion the Executive Board concluded that a change in the present policy is not desirable.

"In considering all economic aspects of the present policy, the Executive Board noted that comparatively large quantities of gold have continued to go into private hoards. The Executive Board also took note of arguments that a relaxation of the Fund's gold policy would increase only to a small degree, if at all, the flow of gold now going into private hoards and would have the beneficial effect of eliminating the premium on gold in terms of dollars and of reducing to some extent the premium in terms of inconvertible currencies.

"The Executive Board took the view, however, that in present circumstances the freer international movement of gold into private hoards in certain countries in the Middle East, the Far East, and other regions could absorb substantially more of the current foreign exchange receipts of these countries and further impair their monetary reserves. At a time when many countries have large deficits in their international payments which must be met by inter-governmental grants and credits, and when exchange and import restrictions are maintained to avoid a breakdown in international payments, large external transactions in gold at premium prices must increase the difficulty of restoring international balance and the severity of the exchange and import restrictions that are maintained.

"Furthermore, it is inevitable that external transactions in gold at premium prices will directly or indirectly give rise to exchange transactions at depreciated rates. These exchange transactions are often in violation of the laws of the countries concerned and, in any case, encourage evasion of the requirements that export proceeds be sold at the official exchange rate. Such exchange transactions at a discount from official rates may affect adversely and unfairly the trade of other countries.

"In the nearly three years since the Fund's policy was announced, members have endeavored to conform to it as closely as practicable. The Fund has been in active consultation with them to minimize the flow of gold into premium markets. Although a sizable quantity of gold has continued to flow into these markets, the amount has been less than it would have been if Fund members and some non-members had not been concerned to make the Fund's policy effective.

"The South African proposal to modify the present policy to allow half of the newly-mined gold to go to premium markets would result in an increase in the flow of gold to premium markets and add to the loss of current exchange receipts and reserves by gold absorbing countries. Moreover, this proposal would destroy the basic distinction between the supply of gold for monetary purposes and the supply for non-monetary purposes. It should be noted that since the South Africa resolution was proposed, the change in exchange rates in a large part of the world has materially improved the position of many gold producing countries.

"The Executive Board has also studied, together with many other relevant factors, the question of whether there should be a uniform change in the par values of all

currencies. In its view there is no economic justification for recommending such a change to the Board of Governors.

"The Executive Board, therefore, recommends that the Board of Governors do not adopt the resolution of the Governor for South Africa. It has also decided that there is no reason to change the policy expressed in the Fund's Statement on External Gold Transactions at Premium Prices on June 18, 1947. They trust that members will continue to collaborate with the Fund in giving effect to the policy outlined in the Fund's statement."

CHINA'S FISCAL SYSTEM

The State Administration Council of the People's Government of China made public on April 1 a decision on centralized control of state revenues and expenditures in 1950. The decision is aimed at regulating revenue on a nation-wide scale, cutting down expenditure, and achieving a balanced national budget.

The tax system, procedure for handling revenue and expenditure, basic factors governing salaries of employees of government departments and state enterprises, the number of personnel in government institutions, and the formulation of a national budget and statement of accounts will be worked out by the Ministry of Finance in consultation with the Ministries and organizations concerned. The resources at the disposal of the central government include public grain, customs duties, the salt tax, commodity duties, and the business tax. The local governments will have at their disposal revenues from the local income tax, stamp duties, real estate taxes, and other taxes of a local character, whose maximum limits are strictly fixed by the central government.

U.S. FOREIGN AID IN 1949

U.S. foreign aid in 1949 amounted to nearly \$6 billion, compared with \$5.3 billion in 1948. The increase was accounted for almost entirely by accelerated shipments under ERP, since aid under most other programs declined. Aid in the form of grants accounted for almost 90 per cent of the 1949 total against 74 per cent a year earlier. The declining importance of loans was due largely to the exhaustion of British loan credits in 1948, a diminution of Export-Import Bank credits, and the virtual exhaustion of surplus property credits.

Grants under ERP increased from \$1,397 million in 1948 to \$3,735 million in 1949, and grants to the Philippines for rehabilitation rose from \$130 million to \$203 million. The decline in civilian supplies by the army, from \$1,300 million to \$928 million, was due largely to the fact that programs for certain countries were transferred to ECA. Other declines in grant aid were Post-UNRRA, from \$68 million to \$2 million; Chinese aid, from \$168 million to \$99 million; and Greek-Turkish aid, from \$349 million to \$172 million.

Utilizations under all types of foreign aid loans declined in 1949. Disbursements by the Export-Import Bank fell from \$429 million in 1948 to \$185 million in 1949, and shipments of goods under ERP loans fell from \$476 million to \$425 million. Credits arising from

the transfer of U.S. surplus property abroad were only \$29 million in 1949, compared with \$212 million a year earlier. Surplus property had been largely disposed of by mid-1949.

PHILIPPINE EXCHANGE SITUATION

The Philippine trade deficit for 1949 was 35 per cent higher than that for 1948, as a result of a 5 per cent rise in imports and an 18 per cent fall in exports.

	Imports	Exports	Excess of Imports
	(million U.S. dollars)		
1947	511	266	246
1948	568	319	249
1949	595	261	335

International reserves of the Central Bank declined from US\$400 million on December 31, 1948 to US\$225 million on December 9, 1949, when exchange controls were adopted; subsequently, they recovered to US\$230 million on December 31, 1949 and then fell to US\$221 million on January 31, 1950. U.S. Government expenditures in the Philippines in 1949 were US\$310 million compared with US\$417 million in 1948. It is estimated that in 1950 foreign exchange receipts may reach US\$585.5 million, of which U.S. Government expenditures would be US\$265 million, export receipts US\$260.5 million, and transportation and other receipts US\$60 million. This is somewhat less than the 1949 import figure and is far short of total exchange requirements.

HONGKONG FREE MARKET

US\$—Highest & lowest rates of last week for US notes \$598¼—\$593½, DD 599½—\$594¼, TT 602½—\$596½, corresponding to crosses of US\$2.655—2.682.

Sales in the native market TT US\$ 380,000, drafts & notes US\$515,000.

The market displays an easy tone and there has been speculative forward selling of funds in New York as it is anticipated, in certain quarters, that free market sterling is bound to show increasing strength and that the margin between the official and unofficial crosses may be reduced to a nominal figure only. The forthcoming UK Treasury report on British gold and exchange holdings will, it is generally taken for granted, further underline the strong position in which sterling finds itself this year.

The devaluation of sterling, in the light of current free market rates, is now proved to have been a success though there are still some apprehensions about the future when US aid to Britain and other Western European countries may cease; under present rather tense world conditions, which cannot be presumed to undergo a change for the better, the continuation of US aid, under whatever name and guise, will have to be granted to the non-Soviet part of the so-called free world. Sterling and other currencies of European countries outside the Soviet orbit should thus receive all

required national and foreign support and no confidence crisis will develop; at the same time demand for US goods should decline as European production moves into high gear; and the improvement of the balance of trade and overall payment balances of European countries with the US should be stepped up. With previously rather common fears about the stability of this or that particular European currency now rapidly subsiding the hedging in US\$ is becoming a thing of the past with all the, for non-US residents, pleasant consequences of growth of self-confidence among the metropolitan and 'non-self governing' peoples in Europe and the Far East.

The Shanghai emigre clique has, following the trend, liquidated large holdings in US notes which were either exchanged into local currency or invested in various local enterprises. Taking the cue from this US\$ worshipping clique, local hedgers, discouraged by the continual weakness of the free US\$ rate, are increasing their investments both here and in sterling area countries.

Merchant demand was, as throughout many weeks past, small in spite of the 'cheap' US\$ price which now makes imports from the US and other countries where payment in US currency is required rather attractive from the dealers' and the general public's point of view, however, on account of the large overbought position here and the scarcity of godown space (recently somewhat relieved) no interest is shown by merchants to lay in new stocks. A hand-to-mouth policy is frequently advocated as the expectation of lower world market prices is discouraging holding of larger inventories. China remains the hope of all here—but if communication disruptions continue and the People's Govt restricts the entry of non-essential commodities the outlook for business with China in the next 6 to 10 months cannot be viewed optimistically. Therefore importers and dealers are careful now making any new commitments and prefer to keep cash in the bank rather than order new goods however reasonably priced by overseas exporters and offered at less rigorous terms than irrevocable L/C.

Overseas Chinese remittances were this year much reduced, possibly by 50%, and US Chinese were conspicuous by tardiness in sending funds to their dear ones in China. Dragon Boat Festival, one of the major Chinese Festivals (falling on June 19), usually brings large amounts of gifts etc. from overseas Chinese but this year the munificence was anything but on traditional lines. Does this reflect business recession effects in countries where overseas Chinese are making a living?

A good seller is these weeks Bangkok; proceeds of gold exports are transferred to Hongkong for partial or total exchange into sterling. The Chinese Govt agents remain one of the principal buyers of TT New York (required for financing imports into China).

Japan account US\$ have lost interest in the market and no quotation is available; recently about 5% less than free market TT New York was paid for Japan account but as trading with Japan will soon revert to a yen basis (the present 'emergency' control here and in Tokyo to be suspended) there is no interest here for buying any credits in Tokyo except for immediate import requirements; these however can all be met from official sources (Japan export proceeds being now freely retained by local exporters).

GOLD:—Highest & lowest rates of last week per .945 fine tael \$264¼—254, equiv. to .99 fine tael and oz prices of \$276.83—266.09 and \$230.05—221.13 respectively.

Crosses US\$38¼ high, 37 low. Overseas prices ranged from 36¼—37½ per fine oz troy.

Macao and Canton .99 fine tael prices from \$265¼—275½ and from \$246—258 respectively.

Highest & lowest .945 fine gold and US\$ (TT New York) rates:—

	Gold		US\$	
	high	low	high	low
June				
12	257¾	254	597½	596½
13	259¾	255¼	602½	597
14	261	257¾	601	600
15	261¼	260¾	601	600
16	264¼	260½	601¼	600
17	263	258½	600½	599

Forward interest, in favor of sellers, totaled for last week (7 trading days) 22 c. per tael (4½% p.a. on investment). Forward contracts: 198,000 taels (daily average 39,500). Position left open, daily average 165,000 (this figure includes all positions officially and unofficially concluded in the Exchange; it excludes private contracts, between native banks and banks and customers). Cash bars: 35,000 taels (of which 26,440 listed by Exchange). Of above total 30,500 taels changed hands among interest hedgers, 3800 taels exported (1600 to Bangkok, 2200 to India), 700 taels acquired by jewelers. (Shanghai immigrants have recently brought into Hongkong insufficient quantities so that jewelers had to take recourse again to Exchange for covering their ornamental requirements). Differences paid for .99 fine bars (not stamped by Exchange) on top of .945 fine tael price ranged from \$12.30—13 per tael. Imports: 4200 taels (from Taiwan 1500, North China 1400, South China 1300).

In China gold price was officially raised to PB\$1.15 million (equiv. to about US\$30 per oz); in Taiwan price was raised from equiv. of US\$31 to now 35 per oz. In case of People's Bank gold price advance the reason was to bring price more in line with foreign rates; still the official and black market rates in China are far below foreign equivalents. The price hike in Taiwan was a result of official gold stock exhaustion.

No effective rumors were circulated here. The nonsensical story of USSR's dumping of gold was immediately discounted and described as fabrication.

Chinese Exchange:—Prices on the free market here for Canton remittances HK\$99¼—98.40; for Shanghai gold 86—87 US\$97—97½; Taiwan gold 74, US\$92½ (per 100 in China).

PB notes quoted at HK\$1.63 per 10,000 (same as official rate), business done in such notes totaling HK\$120,000. Remittances with Canton, outside official channels, totaled last week \$340,000; the rate difference favoring Hongkong indicated that HK\$ was of little use these days in Canton, being slowly returned here (which is, in view of Chinese Customs vigilance, no easy matter).

Official rates remained unchanged. Gold and silver buying prices were raised bringing them more in line with foreign prices. New gold and silver prices are PB\$ 1.15 million per oz and PB\$10,500 per dollar coin.

The foreign exchange holdings of the Peking Govt have improved and now more ample allocations are officially allowed to importers of raw materials and other essentials. Estimated US\$ credits of People's Bank now about US\$25 million which amount is monthly increasing as a result of export balance being well maintained.

Silver:—Rates of last week per .99 tael \$4.72—4.73, per dollar coin \$2.96—3.01, per 20 c. coins \$2.30. Sales: 82,000 taels in weight, mostly coins.

Bank Notes and Unofficial DD Business:—Bank note rates of last week (in HK\$) per 100 piastres 12—12.60, Nica guilders 2.20—2.30, Java guilders 1, baht 26½; per one British pound 15¼—15.30, Australia 12.30—12.90, Canada 5.33—5.35, India 1.06½—1.04¾, Burma .79, Ceylon .98—1, Malaya 1.74—1.80½, Philippines 2.16—2.21.

Free sterling drafts were transacted, in small volume, at 2½% below official rates. This business is, on account of more attention paid by Exchange Control, expected to drop to only small figures. Australian pounds were for a short time in demand as there was rumoring about a 10% raise in the Sydney/London crossrate but bank notes were hard to buy. Indonesian guilders, the newly issued currency, have not yet arrived here but there is some trade in TT Jakarta at more or less nominal rates (about 5 guilders per HK\$ 1). Bangkok drafts and unofficial TT is done mostly by native banks and a few trading firms who have, as a side line, an exchange dept. Note and draft rates are approx. the same. Amoy and Swatow bankers are mainly interested in Bangkok exchange such as Ka Chiang, Chan Ping Chun, Wing Sing Loong, Man Fat, Man Cheong. Singapore drafts are usually traded in larger amounts; last week's turnover was almost HK\$500,000 (at about 58 Mal.\$ per 100 local dollars). Singapore, being the nearest sterling area city, has been utilised by exchange operators as a base for operations inside the sterling area (Hongkong being only with one foot in the sterling area and treated with much suspicion by the financial authorities in London on account of its free exchange and bullion market).

More Confidence in Singapore Stocks

Increasing confidence was evident on Malayan Stock Markets during the week and a good volume of business was written which extended to all sections. But whether the improvement can be attributed to assurances given by the visiting ministers is a moot point. Mr. Strachey, unexpectedly, was the more definite when he spoke of "Coming into Malaya, not going out" and when he pointed out that £10 millions of British money was being spent on a new permanent military establishment at Pasir Panjang, Singapore. However, Malaya has had a better hearing than ever before and if only some of the admonitions of well-informed Malaysians are taken to heart in London, then much good will result.

Among industrial shares fresh buying took Straits Traders to \$15.00, while Steamships recovered to \$16.00. Wearnes were wanted at \$2.67½ at the close and Henry Waugh were taken off in fair numbers.

Dollar Tins which registered an improvement included Rantau which went up to \$1.30 on publication of first production from the new property, Taiping to \$1.17½ on an improved output, also Rahman, Talam and Batu Selangor.

In the Australian tin section Pungah rose to 19/3, Rawang Tinfields to 6/- and Thabawleik to 27/-.

London again increased its bids for selected sterling tins.

Rubber shares in general were a steady market, but operators showed no inclination to advance their bids in sympathy with the high commodity market.

Local Government and Municipal Loans had a fair turnover and an unsatisfied demand for high yielding taxable issues is noted.

Opening prices for leading industrials etc. were as follows:

	Buvers (\$ M.)	Sellers (\$ M.)	Yield base on last years dividend
Alexandra Brickwork, Ltd.	2.25	2.30	4.4
Consolidated Tin Smelters, Ltd.	15/6	16/3	8.6
Frazer & Neave Ltd., Gammion (Malaya) Ltd.	3.20	2.25 cd	6.5
Henry Waugh & Co., Ltd.	2.30	2.35	12.9
H.K. & S. Banking Corporation	1.98	2.02	12.3
Malayan Breweries, Ltd.	670.00	690.00	6.5
Malayan Collieries, Ltd.	5.12½	5.22½ xd	5.8
McAlister & Co. Ltd.	1.67½	1.72½	5.7
Overseas Assurance Corp. Ltd.	36.25	37.25	6.8
Oversea Chinese Banking Corp., Ltd.	10.75	11.25	2.7
Raffles Hotel, Ltd.	62.25	63.00	4.8
Singapore Cold Storage Co. Ltd.	2.50	2.60 xd	7.8
Singapore Tractor Co., Ltd.	4.50	4.60	6.6
Straits Steamship Co., Ltd.	13/6	14/6	—
Straits Trading Co., Ltd.	15.80	16.20	6.2
Union Insurance Society of Canton, Ltd.	14.65	14.85	5.1
Wearne Brothers, Ltd.	295.00	305.00	4.5
	2.65	2.70 cd	9.3

Hongkong's Bullish Share Market

Buyers were again increasing their holdings on the Hongkong Stock Exchange and the bullish sentiment, noticed during the previous week, remained unimpaired. The business reported at \$1,496,580 is about four times the volume recorded during the previous four or five weeks. Prices during the week were as follows:

Stocks	High \$	Low \$	Sales
H.K. Govt. Loan 4%	98	—	—
Hongkong Bank	1285	—	222
Bank of East Asia ..	101	101	400
Union Insurance	600	580	192
China Underwriters.	3	—	1000
Asia Navigation	70	70	21,000
H.K. & K. Wharves ..	78	75	125
Hongkong Docks	15.20	15	1000
China Providents ..	9½	9.40	3,500
Shanghai Docks	16	—	9,800
Wheelock Marden ..	21	—	300
H.K. & S. Hotels ..	8½	—	3,000
Shanghai Lands	1.20	1.15	1,500
Hongkong Lands	39	38	433
Trams	12.10	11.80	12,700
Star Ferry	68	—	440
Lights, old	10.90	10.40	11,500
„ new	7.90	7½	7,446
Electric	23¾	23	4,624
Telephones	12¾	—	3,300
Cements	10½	10¼	8,800
Dairy Farm	13	—	1,542
Watson's	26	25½	6,150
Lane Crawford	22½	—	1,300
China Emporium	9	—	250
Kwong Sang Hong ..	80	—	21
Ewo Cotton	3	3	12,100
Shanghai Loan70	.70	1,000
Yangtze Finance ...	2½	—	500

Hongkong has now started the usual slack season for fishing. In addition the fishing fleet has been considerably affected by unrest at Sea. Had conditions been normal the total fish marketed during the month of May would have been considerably higher. The marketing of salt fish is becoming difficult for exporters.

Fisheries Research:—

One shipment of fish fry was sent to Singapore and three shipments to the Fisheries Department in Bangkok.

The Fisheries Assistant is investigating the oxygen requirements for Fish Fry sent by Air and so far his results seem to point to the oxygen requirements per gram of fish being considerably greater in the case of small fish fry of 8 to 12 millimetres than it is of larger fry of 20 millimetres upwards.

Hongkong Fisheries Office Progress Report May 1950

An estimate of the number of fishing days during May 1950 is given below:—

Trawlers 8—12 days, Long Liners 5—10, Purse Seiners 15—20 days

The following amount of fish was handled during the month:—

	Piculs	Fresh Fish equivalent	Piculs
Fresh Fish	21,234		21,234
Sun Dried	640		21,333
Salt Dried	9,816		19,632
Salt Wet	10,496		13,120
	42,186		75,319

Monthly Total of Fish Marketed in Hongkong

Fresh Fish	21,234	piculs
Salt Fish	20,952	„
	42,186	„